Tough Year of Mergers and Acquisitions

Nationwide DSN Report

Through acquisitions, initial public offerings, leveraged buyouts and spin-offs, at least 19 discounter operations wound up with new owners over the past 18 months.

The deals ranged from the $1.19 billion LBO of Bradlees' parent, Stop & Shop Cos., to Maxway's purchase of Danners, which involved the refinancing of about $10 million in debt.

Moreover, additional sweeping changes either remain on the drawing boards or appear to be distinct possibilities in the coming months.

Campeau Corp., for example, is still looking for buyers of the Gold Circle, MainStreet and Children's Place chains it acquired when it bought Federated in a $6.6 billion deal. Gold Circle management has been working on a LBO that would keep the 76-store chain intact. Resignations of key executives, however, have complicated negotiations, prompting speculation that the chain might be sold piecemeal.

As an offshoot of an attempted corporate raid by the Dart Group, the new owner of Bradlees is selling about a third of its stores.

Stop & Shop Cos. Goes Private

To fend off a raid by Herbert Haft and his Dart Group, Bradlees' parent, Stop & Shop Cos., went private this March in a $1.19 billion leveraged buyout. To help pay down acquisition debt, the management since has announced plans to sell the 58 stores in Bradlees' Southern division. Stop & Shop, a supermarket operator, would retain 111 stores of the Bradlees chain it acquired in 1961.

Adding more uncertainty to discount store retailing, May Department Stores (parent of Venture and Caldor), Zayre Corp., and Dayton Hudson Corp. (parent of Target) appear on an investment research firm's list of the 28 U.S. corporations that are most eligible for acquisition or restructuring. Zimbalist Smith, a Greenwich, Conn., firm, selected the corporations in May based on what the firm sees as undervalued stocks.

Undermining May's position, operating profits at Caldor plunged 20 percent more last year to $56 million, less than it earned in 1982. Moreover, operating profits at Venture fell in 1987 by 12.5 percent to $70 million.

Zayre, struggling with its money-losing discount store division, is negotiating with Price Club to sell its BJ's Wholesale Club division, *New York Magazine* reported. BJ's continued to lose money in 1987, Zayre said in its annual report.

Last year, Dayton Hudson survived a Dart Group raid, in part because of last October's stock market crash. In an unusual development regarding one of its numerous acquisition targets, Dart lost about $60 million on the D-H stock it bought when that stock lost half its value overnight.

More typically, Dart paid about $28 a share for a stake in Stop & Shop when it attempted to acquire the company earlier this year. The company's management paid $44 a share for all stock outstanding when it took the company private.

Chain Restructurings Since January 1987

Acquisitions:

Acquiring Chain	Acquired Chain	Price (In Millions)	Number of Stores	Date
Maxway	Danners	NA[1]	18	May 1987
Wal-Mart	Super Savers Wholesale	NA	21	June 1987
C.O.M.B.[2]	Bought out CVN partners	$ 30	NA	August 1987
HCI Holdings	Present Company	23	19	October 1987
Northern Automotive	Auto Works	33	252	January 1988
	U-Save Auto Parts	NA	8	February 1988
	Crown Auto	8	57	March 1988
Nationwise	Guarantee Auto	11	75	February 1988
K mart Corp.[3]	Makro	NA	4	March 1988
Sears, Roebuck & Co.	Western Auto[4]	402	394	April 1988
International Semi-Tech (Far East)	Consumers Distributing (U.S.)	100	85	May 1988
Thrifty Corp.	Pay 'n Save[5]	232	148	June 1988
PACCAR Inc.	Grand Auto	49	107	June 1988
Dart Group[6]	Shoppers Food Warehouse Club	NA	18	June 1988

[1] *Deal involved refinancing $9.7 million in debt and infusing $2 million in added capital.*
[2] *Reorganized as CVN Companies. Bought out half interest of cable affiliates in CVN for $30 million to $50 million in warrants.*
[3] *Acquired 51% interest.*
[4] *Includes 116 Tire America and NTW tire stores.*
[5] *Includes 37 stores of Bi-Mart and III Pay 'n Save drug stores.*
[6] *Bought 50% interest.*
NA—not available

Leveraged Buyouts, Initial Public Offerings, Spin-Offs:

Chain	Action	Price (In Millions)	Number of Stores	Date
Zayre Corp.[1]	Spun Off T.J. Maxx, Hit or Miss chains	$ 202	687	June 1987
Hills Dept. Stores	Again Went Public	82[3]	137	July 1987
Stop & Shop Cos.[2]	Management LBO	1,192	282	March 1988
Chief Auto	Management LBO	130	475	April 1988
Jewelcor	Management LBO	62	18	May 1988
Office Depot	Went Public	21	12	June 1988
Dylex Ltd.	Bought remaining 50% interest in NBO	86	28	June 1988

[1] *Spun off in TJX Cos., which includes 226 T.J. Maxx stores and 461 Hit or Miss units, and sold 17.5 percent share of TJX.*
[2] *Bradlees parent. Includes 169 Bradlees and 113 Stop & Shop supermarkets.*
[3] *Includes $39 million raised through debenture issue.*

Source: DSN research

Top Discount Execs Shift Jobs in Changing Market

(Continued from page 45)

the Campeau Corp. is planning to sell to whittle down the $4.6 billion debt it took on to acquire Federated.

In recent months, Gold Circle execs who have jumped ship to sign on at Caldor include: Steven Fishman, who resigned as senior vp, gmm, home lines, for a similar position at Caldor; and Phil Brown, a former financial planner at Gold Circle, now holding a similar position with Caldor.

In addition, four buyers have quit Gold Circle for Caldor: Phil Terry, ready-to-assemble furniture; Michael Pannullo, sporting goods; Derek Dubin, toys; and David Schwartz, health and beauty aids.

And, at about the same time this spring, Gold Circle's chairman Peter Hayes left the discounter to take the position of president and coo of toy supermarket Child World, which saw its own president Gilbert Wachsman resign in March of 1988.

At North Carolina-based Rose's, Bob Floum joined the team as vice president, merchandising. Additionally, the discounter reshuffled its merchandising staff, setting up three buying divisions: hard lines, soft lines and home lines. Doug Harris is the apparel gmm; Gary Hanson is hard lines, gmm; and Bob Sasser is home lines, gmm.

> ***From an executive standpoint, Caldor is benefiting from the turmoil at Gold Circle. Once part of Federated Stores, Gold Circle is now one of the divisions that the Campeau Corp. is planning to sell to whittle down the $4.6 billion debt it took on to acquire Federated.***

Action at Zayre Late Last Summer

At Zayre, most of the action took place late last summer. Zayre Stores chairman Malcolm Sherman resigned, after which Zayre Corp. chairman Maurice Segall named himself acting chairman of the division. HomeClub president Herbert Zarkin, a lifelong Zayre employee, was recently named chairman of Zayre Stores.

Herb Weich, chairman of Zayre Corp.'s BJ's Wholesale Club division, left the company, leaving questions about Zayre's commitment to the membership club business.

Gilman's retirement from Ames left the chain in the capable hands of his hand-picked successor, president and ceo Peter Hollis, who pointed to the hiring of Jim McKitrick as a key to Ames' future direction. McKitrick, president of the company's G.C. Murphy discount and variety store division, is a veteran of K mart, The Warehouse Club and TG&Y, and will oversee the specialty retail experiments Ames plans to introduce over the next year or two.

Cataloger Best Products elected William F. Costello as president and chief operating officer in March of 1988, a post that had been vacant since February 1987 when then president and coo Robert E.R. Huntley was promoted to chairman and ceo.

PACE Membership Warehouse, the 30-unit warehouse club headquartered in Denver, earlier this year named Charles Steinbreuck president and Wayne Patterson chairman of the company. The two will operate as co-ceo's and replace the club's founder Herb Haimsohn, who resigned in April.

And, a year ago this month, Francis Arnone was brought in from The Broadway to head Melville's Marshalls off-price apparel chain.

Who Owns Whom

- **K mart Corp.**
  - K mart
  - Pay Less NW
  - Waldenbooks
  - Bargain Harolds
  - Makro
  - American Fare
  - Builders Square
    - Office Square
    - Sports Giant
- **Wal-Mart Stores**
  - Wal-Mart
  - Sam's Wholesale Club
  - Hypermart USA
  - dot Drug
- **Dayton Hudson**
  - Target
  - Lechmere
- **Zayre Corp.**
  - Zayre
  - BJ's Wholesale Club
  - TJX Cos.
    - T.J. Maxx
    - Hit or Miss
    - Chadwick's
- **Toys "R" Us**
  - Toys "R" Us
  - Kids "R" Us
- **Ames**
  - Ames
  - G.C. Murphy
  - Office Shop Warehouse
- **Stop & Shop Cos.**
  - Bradlees
- **Melville Corp.**
  - Marshalls
  - Meldisco
  - CVS
  - Freddy's
  - Kay-Bee
  - Linens 'n Things
- **May Department Stores**
  - Caldor
  - Venture
  - Loehmann's
- **Super Valu**
  - ShopKo
    - Twin Valu
- **Allied/Federated**
  - Gold Circle
  - MainStreet
  - Children's Place
  - Filene's Basement
- **Sears, Roebuck & Co.**
  - Western Auto
- **Dee Corp.**
  - Herman's
  - Sunset Sports
- **Trump Group**
  - Northern Automotive
- **Thrifty Corp.**
  - Bi-Mart
  - Pay 'n Save
  - Big 5 Sporting Goods
  - Dave Cook Sports
  - Gart Bros. Sporting Goods
- **Atari**
  - The Federated Group
- **Strawbridge & Clothier**
  - Clover
- **Entertainment Marketing**
  - Crazy Eddie
- **Schottenstein Stores**
  - Value City
  - Valley Fair
- **The Kroger Co.**
  - Price Savers
- **International Semi-Tech (Far East)**
  - Consumers Distributing (U.S.)
- **Dart Group**
  - Trak Auto
  - Crown Books
- **Big Bear Stores**
  - Harts
- **PACCAR Inc.**
  - Grand Auto
  - Al's Auto Parts
- **Steinberg Inc.**
  - Smitty's
- **Ward White PLC**
  - Whitlock Auto
- **Greenman Bros.**
  - Circus World Toy Stores
- **H.C. Prange**
  - Prange-Way
- **Interco Inc.**
  - Sky City
- **Fred W. Albrecht**
  - Click
- **Wetterau**
  - Laneco
- **Euromarché**
  - Biggs
- **Kindercare**
  - Bargain Town USA
- **Dylex Limited**
  - NBO Stores
- **Carrefour PLC**
  - Carrefour USA

Top Full-Line Discounters

Chain	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change
K mart	$22,140	$21,308	3.9%
Wal-Mart	13,248	10,200	29.9
Target	5,306	4,355	21.8
Zayre	3,290	3,046	8.0
Meijer	2,540	2,310	10.0
Ames	2,112	1,888	11.9
Bradlees	2,063	1,873	10.1
Fred Meyer	1,848	1,688	9.5
Hills	1,514	1,343	12.7
Caldor	1,502	1,348	11.4
Rose's	1,337	1,199	11.5
Venture	1,202	1,122	7.1
ShopKo	1,100	940	17.0
Gold Circle	978	969	0.9
Jamesway	701	612	14.5
Fedco	700	650	7.7
Pamida	526	504	4.4
Alexander's	523	520	0.6
Heck's	418	565	(26.0)
Click	396	380.00	4.2
Fisher's Big Wheel	335	290	15.5
Clover	330	300	10.0
ALCO	329	344	(4.4)
Laneco	315	310.00	1.6
Value City	303	293	3.4
S.E. Nichols	295	281	5.0
Ann & Hope	258	250	3.2
Bi-Mart	240	234	2.6
TSS-Seedman's	230	230	0.0
Rich's	217	184	17.9

Source: DSN research

Top Specialty Chains

Chain	Code	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change
Toys "R" Us	TOY	$3,137	$2,445	28.3%
TJX Cos.	APP	1,644	1,395	17.8
Marshalls	APP	1,603	1,409	13.8
Circuit City	CE	1,350	1,011	33.5
Western Auto	AUTO	931	760	22.5
Herman's	SPORT	762	630	21.0
Highland Superstores	CE	753	656	14.8
Silo	CE	750	600	25.0
Child World	TOY	749	629	19.1
Northern Automotive	AUTO	625	485	28.9
Kay-Bee	TOY	610	487	25.3
Ross Stores	APP	576	534	7.9
Pep Boys	AUTO	554	486	14.0
Thrifty Corp.	SPORT	494	359	37.6
Burlington Coat	APP	491	391	25.6

Source: DSN research

The Top 100
ALCO to Zayre

Chain	1987 Rank
ALCO, Abilene, Kan.	58
Alexander's, New York, N.Y.	43
American TV, Madison, Wis.	85
Ames, Rocky Hill, Conn.	10
Ann & Hope, Cumberland, R.I.	70
Audio-Video Affiliates, Dayton, Ohio	81
AutoZone, Memphis, Tenn.	50
Best Buy, Minneapolis, Minn.	46
Best Products, Richmond, Va.	11
Bi-Mart, Eugene, Ore.	74
BJ's Wholesale Club, Natick, Mass.	38
Bradlees, Braintree, Mass.	12
Brendle's, Elkin, N.C.	77
Burlington Coat, Burlington, N.J.	45
Caldor, Norwalk, Conn.	17
Chief Auto Parts, Dallas, Texas	52
Child World, Avon, Mass.	30
Circuit City, Richmond, Va.	19
Click, Akron, Ohio	49
Clothestime, Anaheim, Calif.	87
Clover, Philadelphia, Pa.	57
Consolidated Stores, Columbus, Ohio	39
Consumers Distributing, (U.S.) Edison, N.J.	65
Costco, Seattle, Wash.	18
Crazy Eddie, Edison, N.J.	59
Dollar General, Scottsville, Ky.	36
Dress Barn, Stamford, Conn.	88
Family Dollar, Charlotte, N.C.	40
Fedco, Santa Fe Springs, Calif.	32
Federated Group, The, City of Commerce, Calif.	47
Filene's Basement, Wellesley, Mass.	67
Fisher's Big Wheel, New Castle, Pa.	54
Fred Meyer, Portland, Ore.	13
Fretter, Livonia, Mich.	72
Gee Bee, Johnstown, Pa.	92
Gold Circle, Worthington, Ohio	24
Grand Auto, Oakland, Calif.	89
Greenman Bros., Farmingdale, N.Y.	95
Harts, Columbus, Ohio	86
Heck's, Nitro, W.Va.	48
Herman's, Carteret, N.J.	27
Highland Superstores, Taylor, Mich.	28
Hills, Canton, Mass.	16
Jamesway, Secaucus, N.J.	31
K mart, Troy, Mich.	1
K Merchandise, Decatur, Ill.	99
Kay-Bee, Pittsfield, Mass.	35
Laneco, Palmer, Pa.	60
Lechmere, Woburn, Mass.	33
Lionel Leisure, Philadelphia, Pa.	5[illegible]
Loehmann's, Bronx, N.Y.	55
L. Luria & Son., Miami Lakes, Fla.	84
Makro, Cincinnati, Ohio	62
Marshalls, Wakefield, Mass.	15
Maxway, Sanford, N.C.	91
Meijer, Grand Rapids, Mich.	9
Nationwise, Columbus, Ohio	75
Newmark & Lewis, Hicksville, N.Y.	73
Northern Automotive, Phoenix, Ariz.	34
Oshman's, Easton, Texas	56
OTASCO, Tulsa, Okla.	68
PACE, Aurora, Colo.	25
Pamida, Omaha, Neb.	42
Pay Less NW, Wilsonville, Ore.	22
Pep Boys, Philadelphia, Pa.	41
Pic 'N' Save, Carson, Calif.	51
Prange Way, Green Bay, Wis.	96
Price Club, San Diego, Calif.	4
Price Savers, Salt Lake City, Utah	63
Quality Stores, N. Muskegon, Mich.	93
Rich's, Salem, Mass.	80
Rose's, Henderson, N.C.	20
Ross Stores, Newark, Calif.	37
Sam's, Bentonville, Ark.	8
Service Merchandise, Nashville, Tenn.	7
ShopKo, Green Bay, Wis.	23
Silo, Philadelphia, Pa.	29
Sky City, Asheville, N.C.	100
Smitty's, Phoenix, Ariz.	90
Sportmart, Niles, Ill.	82
Swallen's, Cincinnati, Ohio	98
Syms, Lyndhurst, N.J.	71
S.E. Nichols, New York, N.Y.	64
Target, Minneapolis, Minn.	3
Thrifty Corp, Los Angeles, Calif.	44
TJX Cos., Framingham, Mass.	14
Tops Appliances, Edison, N.J.	66
Toys "R" Us, Rochelle Park, N.J.	6
Trak Auto, Landover, Md.	83
TSS-Seedman's, Brooklyn, N.Y.	76
Value City, Columbus, Ohio	61
Venture, O'Fallon, Mo.	21
Wal-Mart, Bentonville, Ark.	2
Warehouse Club, Niles, Ill.	78
Western Auto, Kansas City, Mo.	26
Whitlock, Des Plaines, Ill.	94
Wholesale Club, The, Indianapolis, Ind.	69
Wiz, The, New York, N.Y.	79
Yellow Front, Phoenix, Ariz.	97
Zayre, Framingham, Mass.	5

Source: DSN research

The Discount Industry's Top 100 Chains

				Sales (In Millions)		Percent Change	Earnings (Loss)		Percent Change	Number of Stores		
1987	1986	Chain	Code	1987	1986		1987	1986		1/88	1/87	Proj. 12/88
1	1	**K mart,** Troy, Mich.	DDS	$22,140	$21,308	3.9%	$1,380.0	$1,310.0	5.3%	2,223	2,204	2,263
2	2	**Wal-Mart,** Bentonville, Ark.	DDS	13,248	10,200	29.9	1,067.0	846.0	26.1	1,114	980	1,239
3	3	**Target,** Minneapolis, Minn.	DDS	5,306	4,355	21.8	322.5	311.0	3.7	317	246	342
4	5	**Price Club,** San Diego, Calif.	CLUB	3,323	2,667	24.6	139.7	116.0	20.4	37	34	41
5	4	**Zayre,** Framingham, Mass.	DDS	3,290	3,046	8.0	(13.9)	129.9	—	382	362	394
6	7	**Toys "R" Us,**[1] Rochelle Park, N.J.	TOY	3,137	2,445	28.3	345.9	284.2	21.7	424	338	519
7	6	**Service Merchandise,** Nashville, Tenn.	CAT	2,719	2,527	7.6	44.4	(29.1)	—	309	300	317
8	11	**Sam's,** Bentonville, Ark.	CLUB	2,711	1,678	61.6	NA	NA	—	84	49	102
9	14	**Meijer,** Grand Rapids, Mich.	DDS	2,540	2,310	10.0	NA	NA	—	53	53	NA
10	10	**Ames,** Rocky Hill, Conn.	DDS	2,112	1,888	11.9	57.6	54.3	6.1	488	463	NA
11	8	**Best Products,** Richmond, Va.	CAT	2,067	2,142	(3.5)	47.6	(24.8)	—	194	194	194
12	9	**Bradlees,** Braintree, Mass.	DDS	2,063	1,873	10.1	56.9	56.6	0.5	171	162	110
13	20	**Fred Meyer,** Portland, Ore.	DDS	1,848	1,688	9.5	53.9	45.4	18.7	99	93	110
14	19	**TJX Cos.,**[2] Framingham, Mass.	APP	1,644	1,395	17.8	125.7	104.5	20.3	750	687	815
15	13	**Marshalls,** Wakefield, Mass.	APP	1,603	1,409	13.8	NA	NA	—	286	261	311
16	15	**Hills,** Canton, Mass.	DDS	1,514	1,343	12.7	33.8	(14.5)	—	151	136	167
17	12	**Caldor,** Norwalk, Conn.	DDS	1,502	1,348	11.4	56.0	70.0	(20.0)	116	115	119
18	25	**Costco,** Seattle, Wash.	CLUB	1,370	747	83.4	5.3	4.5	17.8	43	38	52
19	21	**Circuit City,** Richmond, Va.	CE	1,350	1,011	33.5	89.2	71.5	24.8	105	87	125
20	16	**Rose's,** Henderson, N.C.	DDS	1,337	1,199	11.5	31.6	43.6	(27.5)	237	222	256
21	18	**Venture,** O'Fallon, Mo.	DDS	1,202	1,122	7.1	70.0	80.0	(12.5)	70	65	74
22	17	**Pay Less NW,**[3] Wilsonville, Ore.	DRUG	1,200	1,100	9.1	65.0	NA	—	260	218	288
23	23	**ShopKo,** Green Bay, Wis.	DDS	1,100	940	17.0	61.0	53.5	14.0	75	65	87
24	22	**Gold Circle,** Worthington, Ohio	DDS	978	969	0.9	36.7	31.8	15.4	76	76	NA
25	31	**PACE,** Aurora, Colo.	CLUB	940	595	58.0	7.0	(1.2)	—	32	25	39
26	24	**Western Auto,** Kansas City, Mo.	AUTO	931	760	22.5	18.6	15.1	23.2	1,848	2,049	NA
27	28	**Herman's,** Carteret, N.J.	SPORT	762	630	21.0	NA	NA	—	242	200	268
28	26	**Highland Superstores,** Taylor, Mich.	CE	753	656	14.8	13.3	36.1	(63.2)	72	53	83
29	32	**Silo,** Philadelphia, Pa.	CE	750	600	25.0	NA	NA	—	150	119	210
30	29	**Child World,** Avon, Mass.	TOY	749	629	19.1	26.0	20.8	25.0	152	134	167
31	30	**Jamesway,** Secaucus, N.J.	DDS	701	612	14.5	11.6	12.1	(4.1)	111	101	123
32	27	**Fedco,** Santa Fe Springs, Calif.	DDS	700	650	7.7	NA	NA	—	12	9	12
33	43	**Lechmere,** Woburn, Mass.	DDS	636	476	33.6	22.7	17.0	33.5	24	17	27
34	NR	**Northern Automotive,**[4] Phoenix, Ariz.	AUTO	625	485	28.9	NA	NA	—	505	474	875
35	41	**Kay-Bee,** Pittsfield, Mass.	TOY	610	487	25.3	NA	NA	—	676	639	726
36	34	**Dollar General,** Scottsville, Ky.	DOLLAR	588	565	4.1	18.4	14.5	26.9	1,302	1,339	NA
37	35	**Ross Stores,** Newark, Calif.	APP	576	534	7.9	18.9	(45.5)	—	131	121	146
38	38	**BJ's Wholesale Club,** Natick, Mass.	CLUB	575	350	64.3	NA	NA	—	19	16	22
39	45	**Consolidated Stores,** Columbus, Ohio	CLOSE	571	397	43.8	22.8	36.6	(37.7)	295	219	325
40	40	**Family Dollar,** Charlotte, N.C.	DOLLAR	560	488	14.8	46.8	57.6	(18.8)	1,272	1,107	1,435
41	42	**Pep Boys,** Philadelphia, Pa.	AUTO	554	486	14.0	59.8	55.4	7.9	207	177	242
42	37	**Pamida,** Omaha, Neb.	DDS	526	504	4.4	1.7	NA	—	165	167	168
43	36	**Alexander's,** New York, N.Y.	DDS	523	520	0.6	1.3	4.1	(68.3)	14	14	13
44	81	**Thrifty Corp.,**[5] Los Angeles, Calif.	SPORT	494	359	37.6	NA	NA	—	160	149	NA
45	46	**Burlington Coat,** Burlington, N.J.	APP	491	391	25.6	20.3	17.3	17.3	104	87	125
46	72	**Best Buy,** Minneapolis, Minn.	CE	439	240	82.9	2.8	7.7	(63.6)	40	23	43
47	44	**The Federated Group,** City of Commerce, Calif.	CE	437	430	1.6	NA	(11.5)	—	68	65	61
48	33	**Heck's,** Nitro, W.Va.	DDS	418	565	(26.0)	(61.3)	(18.3)	—	118	172	78
49	NR	**Click,** Akron, Ohio	DDS	396	380	4.2	NA	NA	—	32	32	NA
50	47	**AutoZone,**[6] Memphis, Tenn.	AUTO	384	296	29.7	NA	NA	—	420	386	500
51	56	**Pic 'N' Save,** Carson, Calif.	CLOSE	362	304	19.1	85.7	80.0	7.1	125	101	150
52	65	**Chief Auto Parts,** Dallas, Texas	AUTO	360	256	40.6	NA	NA	—	470	485	492
53	62	**Lionel Leisure,** Philadelphia, Pa.	TOY	344	287	19.9	6.8	10.7	(36.4)	78	65	93
54	61	**Fisher's Big Wheel,** New Castle, Pa.	DDS	335	290	15.5	NA	NA	—	87	81	93
55	49	**Loehmann's,** Bronx, N.Y.	APP	334	323	3.4	NA	NA	—	80	90	86
56	53	**Oshman's,** Easton, Texas	SPORT	333	323	3.1	5.7	5.2	9.6	213	214	225
57	59	**Clover,** Philadelphia, Pa.	DDS	330	300	10.0	NA	NA	—	21	21	22
58	51	**ALCO,** Abilene, Kan.	DDS	329	344	(4.4)	NA	NA	—	146	148	151
59	48	**Crazy Eddie,** Edison, N.J.	CE	315	353	(10.8)	(109.0)	11.0	—	42	32	43
60	NR	**Laneco,** Palmer, Pa.	DDS	315	310	1.6	NA	NA	—	35	35	37
61	60	**Value City,** Columbus, Ohio	DDS	303	293	3.4	NA	NA	—	42	38	45
62	58	**Makro,** Cincinnati, Ohio	CLUB	300	300	0.0	NA	NA	—	4	4	6
63	57	**Price Savers,** Salt Lake City, Utah	CLUB	300	174	72.4	NA	NA	—	12	6	25
64	54	**S.E. Nichols,** New York, N.Y.	DDS	295	281	5.0	(4.8)	2.6	—	44	45	43
65	52	**Consumers Distributing (U.S.)** Edison, N.J.	CAT	280	328	(14.6)	NA	NA	—	85	90	88
66	64	**Tops Appliances,** Edison, N.J.	CE	280	260	7.7	NA	NA	—	2	2	2
67	67	**Filene's Basement,** Wellesley, Mass.	APP	278	248	12.1	NA	NA	—	22	22	22
68	55	**OTASCO,** Tulsa, Okla.	AUTO	275	309	(11.0)	NA	NA	—	221	575	227
69	90	**The Wholesale Club,** Indianapolis, Ind.	CLUB	272	158	72.2	1.5	1.8	(16.7)	15	11	18
70	69	**Ann & Hope,** Cumberland, R.I.	DDS	258	250	3.2	NA	NA	—	6	7	6
71	71	**Syms,** Lyndhurst, N.J.	APP	255	223	14.3	NA	NA	—	18	17	NA
72	63	**Fretter,** Livonia, Mich.	CE	250	273	(8.4)	1.4	4.0	(65.0)	47	45	53
73	76	**Newmark & Lewis,** Hicksville, N.Y.	CE	242	214	13.1	11.3	7.5	50.7	46	34	52
74	73	**Bi-Mart,** Eugene, Ore.	DDS	240	234	2.6	7.1	0.8	787.5	37	36	38
75	78	**Nationwise,**[7] Columbus, Ohio	AUTO	233	200	16.5	NA	NA	—	200	174	300
76	68	**TSS-Seedman's,** Brooklyn, N.Y.	DDS	230	230	0.0	NA	NA	—	22	18	22
77	77	**Brendle's,** Elkin, N.C.	CAT	228	211	8.1	6.8	13.1	(48.1)	40	35	43
78	91	**Warehouse Club,** Niles, Ill.	CLUB	228	157	45.2	NA	NA	—	12	14	12
79	80	**The Wiz,** New York, N.Y.	CE	218	200	9.0	NA	NA	—	24	19	26
80	83	**Rich's,** Salem, Mass.	DDS	217	184	17.9	6.0	6.0	0.0	21	19	21
81	74	**Audio-Video Affiliates,** Dayton, Ohio	CE	212	229	(7.4)	3.9	8.0	(51.3)	117	106	125
82	98	**Sportmart,** Niles, Ill.	SPORT	212	141	50.4	NA	NA	—	18	12	23
83	84	**Trak Auto,** Landover, Md.	AUTO	212	183	15.8	1.3	7.0	(81.4)	245	245	
84	NR	**L. Luria & Son.,** Miami Lakes, Fla.	CAT	205	172	19.2	11.3	7.9	43.0	43	39	47
85	89	**American TV,** Madison, Wis.	CE	199	160	24.4	NA	NA	—	6	6	7
86	82	**Harts,** Columbus, Ohio	DDS	192	187	2.7	9.1	9.2	(1.1)	29	28	NA
87	88	**Clothestime,** Anaheim, Calif.	APP	179	161	11.2	11.5	23.9	(51.9)	338	263	340
88	85	**Dress Barn,** Stamford, Conn.	APP	173	135	28.1	NA	NA	—	302	235	365
89	86	**Grand Auto,** Oakland, Calif.	AUTO	173	166	4.2	5.7	1.4	307.1	106	121	112
90	96	**Smitty's,** Phoenix, Ariz.	DDS	162	145	11.7	NA	NA	—	19	15	21
91	NR	**Maxway,**[8] Sanford, N.C.	DDS	159	241	(34.0)	(4.4)	(18.1)	—	93	75	93
92	87	**Gee Bee,** Johnstown, Pa.	DDS	156	150	4.0	1.7	4.4	(61.4)	21	67	23
93	95	**Quality Stores,** N. Muskegon, Mich.	DDS	155	148	4.7	NA	NA	—	44	42	51
94	94	**Whitlock,** Des Plaines, Ill.	AUTO	155	139	11.5	NA	NA	—	162	177	170
95	93	**Greenman Bros.,** Farmingdale, N.Y.	TOY	153	154	(0.6)	(6.9)	(6.4)	—	325	310	325
96	99	**Prange Way,** Green Bay, Wis.	DDS	150	140	7.1	NA	NA	—	20	20	22
97	NR	**Yellow Front,** Phoenix, Ariz.	DDS	149	145	2.8	9.3	8.9	4.5	171	106	180
98	NR	**Swallen's,** Cincinnati, Ohio	DDS	147	134	9.7	NA	0.8	—	9	9	9
99	NR	**K Merchandise,** Decatur, Ill.	CAT	145	140	3.6	NA	NA	—	11	11	
100	NR	**Sky City,** Asheville, N.C.	DDS	145	125	16.0	NA	NA	—	72	73	NA

NA-not available
NR-not ranked
Some percentages are based on actual numbers before rounding.
Sales: total store volume from apparel, general merchandise and grocery.
Discount store sales only: Kmart, Wal-Mart, Zayre.
Earnings: profit/loss from continuing operations, before income taxes and extraordinary items (except where chains only report net earnings).

[1] Toys "R" Us includes Kids "R" Us.

[2] TJX Cos. includes T.J. Maxx, Hit or Miss and Chadwick's of Boston.

[3] Pay Less NW included on basis of toy, general merchandise and apparel sales.

[4] Northern Automotive includes Schuck's, Checker, Kragen, Auto Works, Crown and U-Save chains.

[5] Thrifty Corp. includes Big Five, Dave Cook, Gart Bros., Michigan Sporting Goods and Casey's Sporting Goods chains.

[6] AutoZone was formerly AutoShack.

[7] Nationwise acquired Guarantee Auto in February 1988.

[8] Maxway purchased 35 Danners stores in April 1987, kept 18 and sold 17 to Consolidated Stores.

Source: DSN research

Sales Volume Leaders

Chain	Code	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change
K mart, Troy, Mich.	DDS	$22,140	$21,308	3.9%
Wal-Mart, Bentonville, Ark.	DDS	13,248	10,200	29.9
Target, Minneapolis, Minn.	DDS	5,306	4,355	21.8
Price Club, San Diego, Calif.	CLUB	3,323	2,667	24.6
Zayre, Framingham, Mass.	DDS	3,290	3,046	8.0
Toys "R" Us, Rochelle Park, N.J.	TOY	3,137	2,445	28.3
Service Merchandise, Nashville, Tenn.	CAT	2,719	2,527	7.6
Sam's, Bentonville, Ark.	CLUB	2,711	1,678	61.6
Meijer, Grand Rapids, Mich.	DDS	2,540	2,310	10.0
Ames, Rocky Hill, Conn.	DDS	2,112	1,888	11.9
Best Products, Richmond, Va.	CAT	2,067	2,142	(3.5)
Bradlees, Braintree, Mass.	DDS	2,063	1,873	10.1
Fred Meyer, Portland, Ore.	DDS	1,848	1,688	9.5
TJX Cos., Framingham, Mass.	APP	1,644	1,395	17.8
Marshalls, Wakefield, Mass.	APP	1,603	1,409	13.8
Hills, Canton, Mass.	DDS	1,514	1,343	12.7
Caldor, Norwalk, Conn.	DDS	1,502	1,348	11.4
Costco, Seattle, Wash.	CLUB	1,370	747	83.4
Circuit City, Richmond, Va.	CE	1,350	1,011	33.5
Rose's, Henderson, N.C.	DDS	1,337	1,199	11.5
Venture, O'Fallon, Mo.	DDS	1,202	1,122	7.1
Pay Less NW, Wilsonville, Ore.	DRUG	1,200	1,100	9.1
ShopKo, Green Bay, Wis.	DDS	1,100	940	17.0
Gold Circle, Worthington, Ohio	DDS	978	969	0.9
PACE, Aurora, Colo.	CLUB	940	595	58.0

Source: DSN *research*

*Profit Leaders (Net or Operating Income)**

Chain	Code	Earnings (Loss) 1987	Earnings (Loss) 1986	Percent Change
K mart, Troy, Mich.	DDS	$1,380.0	$1,310.0	5.3%
Wal-Mart, Bentonville, Ark.	DDS	1,067.0	846.0	26.1
Toys "R" Us, Rochelle Park, N.J.	TOY	345.9	284.2	21.7
Target, Minneapolis, Minn.	DDS	322.5	311.0	3.7
Price Club, San Diego, Calif.	CLUB	139.7	116.0	20.4
TJX Cos., Framingham, Mass.	APP	125.7	104.5	20.3
Circuit City, Richmond, Va.	CE	89.2	71.5	24.8
Pic 'N' Save, Carson, Calif.	CLOSE	85.7	80.0	7.1
Venture, O'Fallon, Mo.	DDS	70.0	80.0	(12.5)
Pay Less NW, Wilsonville, Ore.	DRUG	65.0	NA	—
ShopKo, Green Bay, Wis.	DDS	61.0	53.5	14.0
Pep Boys, Philadelphia, Pa.	AUTO	59.8	55.4	7.9
Ames, Rocky Hill, Conn.	DDS	57.6	54.3	6.1
Bradlees, Braintree, Mass.	DDS	56.9	56.6	0.5
Caldor, Norwalk, Conn.	DDS	56.0	70.0	(20.0)
Fred Meyer, Portland, Ore.	DDS	53.9	45.4	18.7
Best Products, Richmond, Va.	CAT	47.6	(24.8)	—
Family Dollar, Charlotte, N.C.	DOLLAR	46.8	57.6	(18.8)
Service Merchandise, Nashville, Tenn.	CAT	44.4	(29.1)	—
Gold Circle, Worthington, Ohio	DDS	36.7	31.8	15.4
Hills, Canton, Mass.	DDS	33.8	(14.5)	—
Rose's, Henderson, N.C.	DDS	31.6	43.6	(27.5)
Child World, Avon, Mass.	TOY	26.0	20.8	25.0
Consolidated Stores, Columbus, Ohio	CLOSE	22.8	36.6	(37.7)
Lechmere, Woburn, Mass.	DDS	22.7	17.0	33.5

* (In Millions) *NA—not available* *Source:* DSN *research*

The Leading Discount Chains

Nationwide DSN Report

The mushrooming specialty store and membership warehouse club companies continued to outpace the performance of full-line discount stores and catalogers during 1987, climbing higher on *DSN*'s listing of volume, profit, store count and selling space leaders.

While K mart and Wal-Mart maintained the same relative rankings as last year, many other discounters lost their relative placement on the charts. In many cases the drop wasn't due to poor performance at the discount chains, but to accelerated growth at specialty stores and warehouse clubs.

The three companies with the highest percentage increases in sales growth were all warehouse clubs: Costco (83.4 percent), Sam's (61.6 percent) and PACE (58 percent).

The specialty chains with especially strong growth in volume included Circuit City (33.5 percent), Toys "R" Us (28.3 percent) and Zayre's spin-off apparel chain TJX Cos. (17.8 percent).

Wal-Mart (29.9 percent) and Target (21.8 percent) were the only discounters with major sales growth. Most were barely into double-digit gains.

In terms of profits, the gainers once again were concentrated among those companies that operate membership warehouses or specialty chains.

Toys "R" Us, Child World, Circuit City, TJX Cos., Price Club and Fred Meyer were all among the strongest profit performers during 1987.

K mart was number one in store count. But specialty chains were also heavily represented among the top 25 leaders, due in part to the relatively smaller size and lower store opening costs associated with specialty stores.

Store Count Leaders

Chain	Code	Number of Stores 1/88	Number of Stores 1/87	Number of Stores Proj. 12/88
K mart, Troy, Mich.	DDS	2,223	2,204	2,263
Western Auto, Kansas City, Mo.	AUTO	1,848	2,049	NA
Dollar General, Scottsville, Ky.	DOLLAR	1,302	1,339	NA
Family Dollar, Charlotte, N.C.	DOLLAR	1,272	1,107	1,435
Wal-Mart, Bentonville, Ark.	DDS	1,114	980	1,239
TJX Cos., Framingham, Mass.	APP	750	687	815
Kay Bee, Pittsfield, Mass.	TOY	676	639	726
Northern Automotive, Phoenix, Ariz.	AUTO	505	474	NA
Ames, Rocky Hill, Conn.	DDS	488	321	NA
Chief Auto Parts, Dallas, Texas	AUTO	470	485	492
Toys "R" Us, Rochelle Park, N.J.	TOY	424	338	519
AutoZone, Memphis, Tenn.	AUTO	420	386	500
Zayre, Framingham, Mass.	DDS	382	362	394
Clothestime, Anaheim, Calif.	APP	338	263	340
Greenman Bros., Farmingdale, N.Y.	TOY	325	310	325
Target, Minneapolis, Minn.	DDS	317	246	342
Service Merchandise, Nashville, Tenn.	CAT	309	300	317
Dress Barn, Stamford, Conn.	APP	302	235	365
Consolidated Stores, Columbus, Ohio	CLOSE	295	219	325
Marshalls, Wakefield, Mass.	APP	286	261	311
Pay Less NW, Wilsonville, Ore.	DRUG	260	218	288
Trak Auto, Landover, Md.	AUTO	245	245	
Herman's, Carteret, N.J.	SPORT	242	200	268
Rose's, Henderson, N.C.	DDS	237	222	256
OTASCO, Tulsa, Okla.	AUTO	221	575	227

NA—not available *Source:* DSN *research*

Selling Space Leaders

Chain	Code	Total Footage (In 000 Sq. Ft.)	No. of Stores 1/88	Store Size* (In 000 Sq. Ft.)
K mart, Troy, Mich.	DDS	151,164	2,223	68
Wal-Mart, Bentonville, Ark.	DDS	77,980	1,114	70
Ames, Rocky Hill, Conn.	DDS	31,720	488	65
Target, Minneapolis, Minn.	DDS	31,700	317	100
Zayre, Framingham, Mass.	DDS	27,886	382	73
Toys "R" Us, Rochelle Park, N.J.	TOY	19,504	424	46
Service Merchandise, Nashville, Tenn.	CAT	15,450	309	50
Western Auto, Kansas City, Mo.	AUTO	12,936	1,848	7
Best Products, Richmond, Va.	CAT	12,610	194	65
Hills, Canton, Mass.	DDS	12,080	151	80
Bradlees, Braintree, Mass.	DDS	11,970	171	70
Fred Meyer, Portland, Ore.	DDS	10,395	99	105
Rose's, Henderson, N.C.	DDS	9,954	237	42
Caldor, Norwalk, Conn.	DDS	9,512	116	82
Family Dollar, Charlotte, N.C.	DOLLAR	8,904	1,272	7
Sam's, Bentonville, Ark.	CLUB	8,400	84	100
Marshalls, Wakefield, Mass.	APP	8,294	286	29
Gold Circle, Worthington, Ohio	DDS	7,980	76	105
Dollar General, Scottsville, Ky.	DOLLAR	7,812	1,302	6
Pay Less NW, Wilsonville, Ore.	DRUG	7,280	260	28
Lionel Leisure, Philadelphia, Pa.	TOY	7,254	78	93
Meijer, Grand Rapids, Mich.	DDS	7,155	53	135
Consolidated Stores, Columbus, Ohio	CLOSE	7,080	295	24
ShopKo, Green Bay, Wis.	DDS	6,975	75	93
Jamesway, Secaucus, N.J.	DDS	6,438	111	58

**average* *Source:* DSN *research*

Chain Codes: ● DDS: Discount department store
● CAT: Catalog showroom ● SPORT: Sporting goods specialty chain
● AUTO: Auto aftermarket specialty chain ● TOY: Toy specialty chain
● APP: Off-price apparel chain ● CE: Consumer electronics chain
● DRUG: Drug discounter ● DOLLAR: Dollar variety chain
● CLUB: Membership warehouse club

Top Chains in Dollar Sales Growth

Chain	Code	Sales (In Millions) 1987	Sales (In Millions) 1986	Sales Growth (In Millions)
Wal-Mart, Bentonville, Ark.	DDS	$13,248	$10,200	$ 3,048
Sam's, Bentonville, Ark.	CLUB	2,711	1,678	1,033
Target, Minneapolis, Minn.	DDS	5,306	4,355	951
K mart, Troy, Mich.	DDS	22,140	21,308	832
Toys "R" Us, Rochelle Park, N.J.	TOY	3,137	2,445	692
Price Club, San Diego, Calif.	CLUB	3,323	2,667	656
Costco, Seattle, Wash.	CLUB	1,370	747	623
PACE, Aurora, Colo.	CLUB	940	595	345
Circuit City, Richmond, Va.	CE	1,350	1,011	339
TJX Cos., Framingham, Mass.	APP	1,644	1,395	249
Zayre, Framingham, Mass.	DDS	3,290	3,046	244
Meijer, Grand Rapids, Mich.	DDS	2,540	2,310	230
BJ's Wholesale Club, Natick, Mass.	CLUB	575	350	225
Ames, Rocky Hill, Conn.	DDS	2,112	1,888	224
Best Buy, Minneapolis, Minn.	CE	439	240	199
Marshalls, Wakefield, Mass.	APP	1,603	1,409	194
Service Merchandise, Nashville, Tenn.	CAT	2,719	2,527	192
Bradlees, Braintree, Mass.	DDS	2,063	1,873	190
Consolidated Stores, Columbus, Ohio	CLOSE	571	397	174
Hills, Canton, Mass.	DDS	1,514	1,343	171

Source: DSN *research*

Top Chains in Percentage Sales Growth

Chain	Code	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change
Costco, Seattle, Wash.	CLUB	$ 1,370	$ 747	83.4%
Best Buy, Minneapolis, Minn.	CE	439	240	82.9
Price Savers, Salt Lake City, Utah	CLUB	300	174	72.4
The Wholesale Club, Indianapolis, Ind.	CLUB	272	158	72.2
BJ's Wholesale Club, Natick, Mass.	CLUB	575	350	64.3
Sam's, Bentonville, Ark.	CLUB	2,711	1,678	61.6
PACE, Aurora, Colo.	CLUB	940	595	58.0
Sportmart, Niles, Ill.	SPORT	212	141	50.4
Warehouse Club, Niles, Ill.	CLUB	228	157	45.2
Consolidated Stores, Columbus, Ohio	CLOSE	571	397	43.8
Chief Auto Parts, Dallas, Texas	AUTO	360	256	40.6
Thrifty Corp., Los Angeles, Calif.	SPORT	494	359	37.6
Lechmere, Woburn, Mass.	DDS	636	476	33.6
Circuit City, Richmond, Va.	CE	1,350	1,011	33.5
Wal-Mart, Bentonville, Ark.	DDS	13,248	10,200	29.9
AutoZone, Memphis, Tenn.	AUTO	384	296	29.7
Northern Automotive, Phoenix, Ariz.	AUTO	625	485	28.9
Toys "R" Us, Rochelle Park, N.J.	TOY	3,137	2,445	28.3
Burlington Coat, Burlington, N.J.	APP	490	382	28.3
Dress Barn, Stamford, Conn.	APP	173	135	28.1

Source: DSN *research*

The Fastest Growing Discount Chains

Nationwide DSN Report

When asked which chains opened the most stores last year or which had the largest percentage sales growth, there is probably a temptation to first think of K mart for the former and Wal-Mart for the latter.

In reality, the listings of chains showing the greatest growth in four specific areas contains a few surprises.

The companies that are growing strongest when measured against their previous year's performance include a high percentage of specialty stores and membership warehouses, along with the usual discounters like K mart, Wal-Mart and Target.

Wal-Mart and Sam's, its membership warehouse operation, took first and second place for largest dollar sales growth between 1986 and 1987, with Target, K mart, and a number of warehouse clubs and specialty stores composing the bulk of the top 20 chains showing the greatest growth in sales.

Last year K mart ranked second and Target ranked No. 6. This year Target was third and K mart fourth.

Costco was No. 1 in terms of percentage sales growth between 1986 and 1987, recording a 83.4 percent sales surge. The only discounter to measure up was Wal-Mart, No. 15, with a 29.9 percent increase.

Other membership warehouse clubs that experienced similar high-percentage sales spurts last year included Price Savers, The Wholesale Club, Sam's, PACE and Warehouse Club, all of which had 1987 sales that were at least 45 percent higher than for 1986.

As for the highest growth in dollar earnings, Wal-Mart, with $221 million, lead the pack, followed by Service Merchandise, $73.5 million, and Best Products, $72.4 million. The two catalogers managed to increase their dollar earnings within a one-year period even more successfully than K mart (up $70 million) and other powerhouses.

Both Service and Best turned red ink in 1986 into black last year. Each cataloger lost over $20 million two years ago but recorded profits exceeding $40 million in 1987. The roughly $70 million in earnings growth at the two catalogers outpaced highly successful specialty stores such as Toys "R" Us and Circuit City, as well as a long list of wholesale clubs and traditional discount outlets.

Family Dollar and Wal-Mart again topped the chart in terms of having the highest number of new store openings in a one-year period. The dollar store operator opened 165 stores during 1987; Wal-Mart opened 134 units. Toys "R" Us, which had ranked No. 9 last year with 49 store openings, jumped to the No. 3 spot by opening 86 new locations.

Other than Wal-Mart, discounters fared poorly in the new stores measurement. Target was the next discounter to show, ranking No. 6 with 71 new units in 1987.

Top Chains in Dollars Earnings Growth

Chain	Code	Earnings (Loss) (In Millions) 1987	Earnings (Loss) (In Millions) 1986	Earnings Growth (In Millions)
Wal-Mart, Bentonville, Ark.	DDS	$1,067.0	$ 846.0	$ 221.0
Service Merchandise, Nashville, Tenn.	CAT	44.4	(29.1)	73.5
Best Products, Richmond, Va.	CAT	47.6	(24.8)	72.4
K mart, Troy, Mich.	DDS	1,380.0	1,310.0	70.0
Ross Stores, Newark, Calif.	APP	18.9	(45.5)	64.4
Toys "R" Us, Rochelle Park, N.J.	TOY	345.9	284.2	61.7
Hills, Canton, Mass.	DDS	33.8	(14.5)	48.3
Price Club, San Diego, Calif.	CLUB	139.7	116.0	23.7
TJX Cos., Framingham, Mass.	APP	125.7	104.5	21.2
Circuit City, Richmond, Va.	CE	89.2	71.5	17.7
Maxway, Sanford, N.C.	DDS	(4.4)	(18.1)	13.7
Target, Minneapolis, Minn.	DDS	322.5	311.0	11.5
Fred Meyer, Portland, Ore.	DDS	53.9	45.4	8.5
PACE, Aurora, Colo.	CLUB	7.0	(1.2)	8.2
ShopKo, Green Bay, Wis.	DDS	61.0	53.5	7.5
Bi-Mart, Eugene, Ore.	DDS	7.1	0.8	6.3
Lechmere, Woburn, Mass.	DDS	22.7	17.0	5.7
Pic 'N' Save, Carson, Calif.	CLOSE	85.7	80.0	7.1
Gold Circle, Worthington, Ohio	DDS	36.7	31.8	4.9
Pep Boys, Philadelphia, Pa.	AUTO	59.8	55.4	4.4

Source: DSN *research*

Top Chains in Store Count Growth

Chain	Code	Number of Stores 1/88	Number of Stores 1/87	Number of New Stores in 1987
Family Dollar, Charlotte, N.C.	DOLLAR	1,272	1,107	165
Wal-Mart, Bentonville, Ark.	DDS	1,114	980	134
Toys "R" Us, Rochelle Park, N.J.	TOY	424	338	86
Consolidated Stores, Columbus, Ohio	CLOSE	295	219	76
Clothestime, Anaheim, Calif.	APP	338	263	75
Target, Minneapolis, Minn.	DDS	317	246	71
Dress Barn, Stamford, Conn.	APP	302	235	67
Yellow Front, Phoenix, Ariz.	DDS	171	106	65
TJX Cos., Framingham, Mass.	APP	750	687	63
Herman's, Carteret, N.J.	SPORT	242	200	42
Pay Less NW, Wilsonville, Ore.	DRUG	260	218	42
Kay-Bee, Pittsfield, Mass.	TOY	676	639	37
Sam's, Bentonville, Ark.	CLUB	84	49	35
AutoZone, Memphis, Tenn.	AUTO	420	386	34
Northern Automotive, Phoenix, Ariz.	AUTO	505	474	31
Silo, Philadelphia, Pa.	CE	150	119	31
Pep Boys, Philadelphia, Pa.	AUTO	207	177	30
Nationwise, Columbus, Ohio	AUTO	200	174	26
Ames, Rocky Hill, Conn.	DDS	488	463	25
Marshalls, Wakefield, Mass.	APP	286	261	25

Source: DSN *research*

Chain Codes:
- DDS: Discount department store
- CAT: Catalog showroom
- SPORT: Sporting goods specialty chain
- AUTO: Auto aftermarket specialty chain
- TOY: Toy specialty chain
- APP: Off-price apparel chain
- CE: Consumer electronics chain
- DRUG: Drug discounter
- DOLLAR: Dollar variety chain
- CLUB: Membership warehouse club

Cataloger Rebound: Focus on Regional Chains

Nationwide DSN Report

Top Catalog Showroom Chains

Chain (Coordinator)	**Sales** (In Millions)		**Percent Change**	**Number of Stores**		
	1987	**1986**		**12/88***	**12/87**	**12/86**
Service Merchandise, Nashville, Tenn. (Independent)	$2,719	$2,527	7.6%	317	309	300
Best Products, Richmond, Va. (Independent)	2,067	2,142	(3.5)	194	194	194
Consumers Distributing (U.S.) Edison, N.J. (Independent)	280	328	(14.6)	86	85	95
Brendle's, Elkin, N.C. (MAI)	228	211	8.2	43	40	35
L. Luria & Son, Miami Lakes, Fla. (Independent)	205	172	19.3	47	43	39
K's Merchandise, Decatur, Ill. (Paul Schultz)	145	140	3.6	11	11	11
David Weis, Monroeville, Pa. (MAI)	130	125	4.0	17	17	16
W. Bell, Rockville, Md. (Independent)	120	130	(7.6)	18	18	22
Jewelcor, Wilkes Barre, Pa. (Jewelcor)	117	122	(4.2)	17	17	22
Dahlkemper's, Erie, Pa. (Paul Schultz)	72	68	5.9	10	9	7
Present Co., Rochester, N.Y. (MAI)	65	58	12.1	21	20	18
Sterling Jewelry, Dallas, Texas (Paul Schultz)	65	60	8.3	5	5	5
E.H. Tepe, South Bend, Ind. (Paul Schultz)	55	50	10.0	10	10	10
Evans Distributors, Rockville, Md. (MAI)	55	50	10.0	9	6	6
Brand Name, Tonawanda, N.Y. (Independent)	45	43	4.7	15	15	15
Arthur's Jewelers, Plainfield, N.J. (MAI)	43	43	0	8	6	6
Foland, Livonia, Mich. (Paul Schultz)	40	40	0	6	6	7
Witmark, Grand Rapids, Mich. (MAI)	40	35	14.3	8	8	7
Save-Rite, Woonsocket, R.I. (MAI)	37	37	0	7	5	5
Golbro, Birmingham, Ala. (Associated Charter)	35	32	9.4	7	7	7

*projected

Source: DSN research

The fortunes of the catalog showroom industry will shine brighter this year, sparked by the turnaround of the two largest chains, Service Merchandise and Best Products, whose operations are national in scope, and the renewed expansion activities of a number of smaller, regional and local companies.

The industry's luster will also reflect the key role that jewelry plays in the merchandising plans of almost all catalogers. Service Merchandise and Best Products are among the nation's top jewelry retailers, while diamonds, watches and gold merchandise account for up to 40 percent of the sales of regional catalogers like L. Luria & Son during the holiday fourth quarter.

The total volume of the 144 catalogers that operate about 1,125 showrooms and comprised the industry at the start of 1988 are projected at $7.1 billion this year, up 2.9 percent from approximately $6.9 billion last year.

Despite the large number of catalog firms, the industry is dominated by the two national chains and 18 regional operators that last year accounted for almost $6.6 billion in sales or about 95 percent of the $6.9 billion volume.

These same chains checked out just over $6.4 billion in sales in 1986, or 91.6 percent of the industry's $7 billion in volume. Those sales included volume from major regional catalogers like McDade, Segall's and Boardman as well as a number of single-showroom operators that subsequently left the industry, resulting in the lower revenue figure for 1987.

The industry is dominated by two national and 18 regional chains that accounted for 95 percent of total sales.

The top 20 chains' growing share of the catalog action reflects the increasingly important role that has fallen to the 18 major regional showroom operators, most of which are family-run, privately-held companies. The volume of these 18 sectional operators runs the gamut from $280 million for Consumers Distributing (U.S.) with stores in the metropolitan Boston, New York, Philadelphia and Baltimore markets, to $35 million for Golbro in Alabama.

Another dozen regional and single-state companies whose sales range between $15 million and $35 million comprise a second layer of chains. They, too, are becoming an increasingly important industry component.

The growing impact being made by the major regional operations is evident from the expansion plans to which a number of these chains have already made commitments. L. Luria & Son has four new showrooms on the drawing board, with Brendle's and Evans Distributors each set for three and Arthur's Jewelry and Save-Rite down for two apiece.

Not included in the growth statistics are remodelings and refurbishings planned by a number of chains looking to offer customers more attractive and easier to shop store environments.

The projected total of 856 showrooms for the top 20 by the end of the year is a 30.1 percent increase in the store count from last year's 831 units. The top 20 accounted for 73.9 percent of the industry's showrooms at the start of the year.

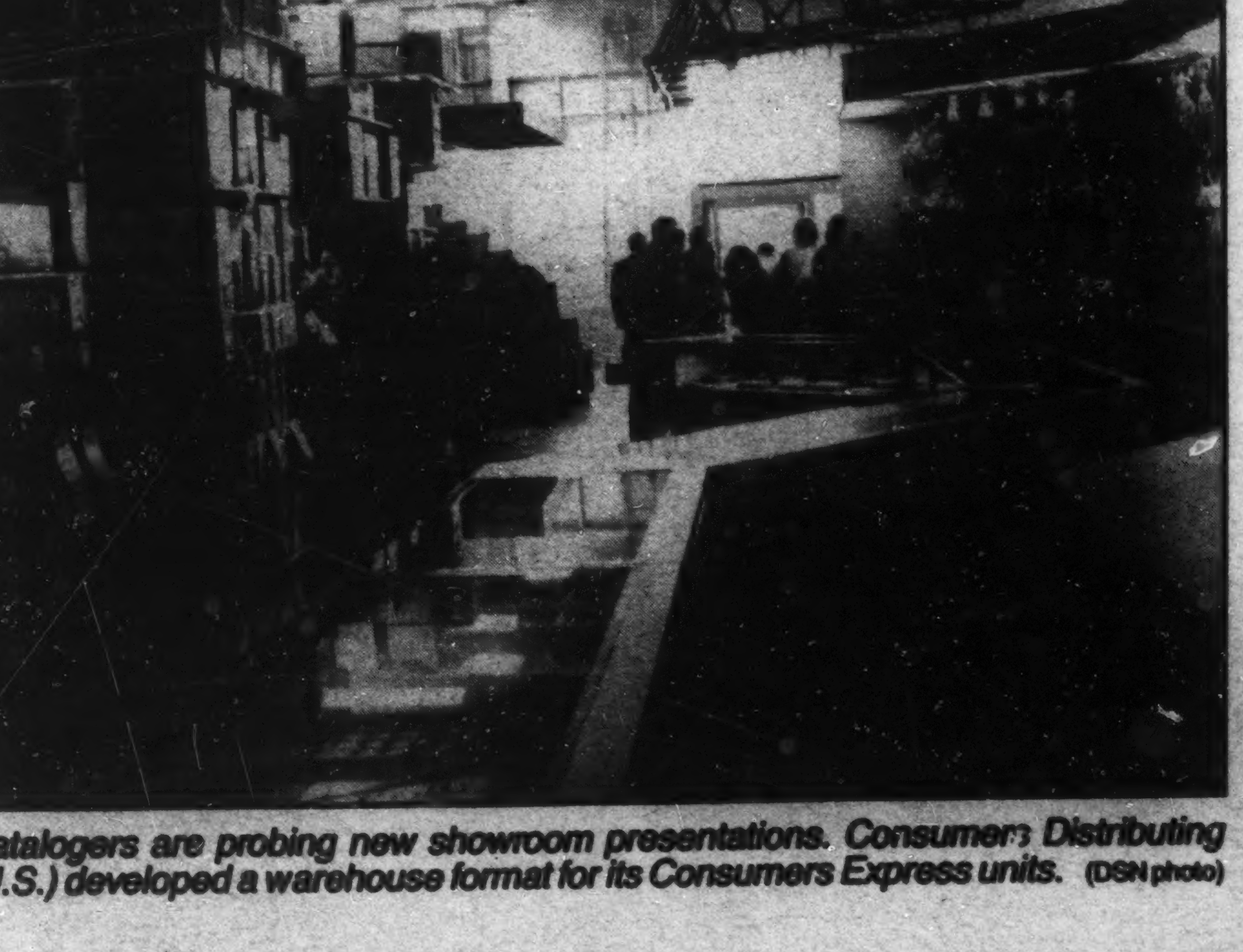
The importance of the regional chains, however, hasn't detracted from the leading roles played by Service Merchandise and Best Products, the two chains that together accounted for 69.3 percent of the industry's sales last year. This is a 3.9 percent increase from their combined 66.7 percent share in the prior year.

Service Merchandise remains the powerhouse cataloger, alone accounting for 39.4 percent of the industry's sales last year, up 9.1 percent from 36.1 percent in 1986.

Best Products' share, meanwhile, fell 2.3 percent to 29.9 percent from 30.6 percent as the cataloger's sales slipped slightly. It continues to be the No. 2 cataloger in volume.

Best Products isn't the only cataloger whose sales dropped last year. Consumers Distributing's plunged 14.6 percent due to the chain closing down its West Coast showrooms to focus on its East Coast operation.

Store closings were also behind the volume declines at W. Bell, down 7.6 percent, and Jewelcor, off 4.2 percent. In Bell's case, it was the shutting of its five-showroom Texas operation, while Jewelcor phased out five scattered unprofitable units.



Catalogers are probing new showroom presentations. Consumers Distributing (U.S.) developed a warehouse format for its Consumers Express units. (DSN photo)

Consolidations Shake Up Top Auto Chains

Top Automotive Specialty Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1987	1986		12/88*	1/88	
Western Auto Kansas City, Mo.	931	760	22.5	NA	1,848	7,000
Northern Automotive Phoenix, Ariz.	625	485	28.9	875	505	6,000
Pep Boys Philadelphia, Pa.	554	486	14.0	242	207	18,000
AutoZone Memphis, Tenn.	384	296	29.7	500	420	4,000
Chief Auto Parts Dallas, Texas	360	256	40.6	492	470	3,000
OTASCO Tulsa, Okla.	275	309	(11.0)	227	221	7,000
Nationwise Columbus, Ohio	233	200	16.5	300	200	6,000
Trak Auto Landover, Md.	212	183	15.8	NA	245	6,000
Grand Auto Oakland, Calif.	173	166	4.2	112	106	9,000
Whitlock Des Plaines, Ill.	155	139	11.5	170	162	10,000

*projected

NA—not available

[1] Northern Automotive includes Schuck's, Checker, Kragen, Auto Works, Crown and U-Save chains.

[2] AutoZone formerly Auto Shack

[3] Nationwise acquired Guarantee Auto in February 1988.

Source: DSN research

Nationwide DSN Report

Consolidation, along with poor earnings and actual losses for some chains, were stamped all over the automotive aftermarket during the past year.

In the most prominent acquisition, in April, Sears, Roebuck & Co. took over the nation's largest automotive chain, Western Auto, Kansas City, Mo. The deal involved the assumption of $152 million in debt and the payment of $250 million in cash, for a total of $402 million.

For its outlay, Sears added 278 Western Auto stores to its 797 automotive centers, and about 116 Tire America and NTW tire stores that the company had acquired. In addition, through Western's wholesale division, Sears will service 1,570 independently owned stores that operate under the Western Auto banner.

Counting Western Auto's sales of $930.8 million in 1987, the automotive arm of Sears now will enjoy almost $3 billion in annual revenues.

Western Auto, which still operates under its own name and product lines, is continuing its long-term trend of closing hundreds of its small, rural associate stores. Moreover, it is encouraging the remaining associate store owners to adopt the same merchandising format and size of a company-owned store. So far, 320 have converted to what it calls Flag Store status.

Western Opens True Franchise Unit

In addition, Western Auto has opened its first true franchise store, where the franchisee must follow company operating and merchandising policies and pay franchisee fees. It expects to open four more franchised stores by the end of 1988 and 24 company-owned stores, for a total of 302.

Suggestive of the financial state of the automotive aftermarket, Western Auto earned just $10.5 million in 1987, or 1.12 percent of sales. Its pre-tax profits rose 23 percent to $18.6 million from $15.1 million in 1986, but that is half of the $37.4 million pre-tax earnings in 1985, the year that Beneficial Finance sold it to Wesray Corporation, whose partners include former treasury secretary William Simon. Heavy interest charges to service acquisition debt have dampened profits.

Pre-tax profits of Trak Auto, controlled by the Haft family's Dart Group, plunged 81 percent to $1.3 million in 1987 from $7 million in 1986.

Pep Boys Shows 6.2% Net Margin

In contrast, Pep Boys—Manny Moe & Jack, Philadelphia, earned $34.3 million in net profits on sales of $553.8 for a standout net margin of 6.2 percent. Pre-tax profits, though, rose only 7.9 percent to $59.8 million from $55.4 million in 1986.

Northern Automotive, the Phoenix-based combine owned by the New York investors, Eddie and Julius Trump, bought two troubled chains early in 1988—and ran into trouble paying its vendors (see *DSN*, June 6, 1988, page 1).

In January, it spent $33 million to buy the 252 Auto Works stores from Perry Drug Stores, which sold the chain it developed primarily through acquisition after getting "disappointing [probably losing] results." Perry took a $14.2 million write-off on its Auto Works division sale. In March, Northern paid $8 million for the 57 stores of Crown Auto, Minneapolis, which lost $1.6 million in 1987, on top of $170,000 in 1986.

In between, it bought for an undisclosed sum the eight stores in the U-Save Auto Parts chain, Los Angeles. Including units of its original acquisition, Schuck's, in 1984, Northern operates 820 stores, with consolidated sales "in excess of $600 million."

Northern ran into a cash flow squeeze this spring in remerchandising the 378 stores of the Checker and Kragen chains, acquired for $155 million from Lucky Stores in December 1986, and integrating them into Schuck's. Northern bumped its sku count to about 9,000 from 8,000, incurring extra inventory costs.

To allay vendor concerns about its financial stability, Northern called them in for a meeting April 28, after which they agreed to help the company through its growing pains in exchange for assurances the company will get current by Aug. 1.

One credit manager who attended the meeting, said Northern president Dan Siewert told them that Northern earned a net return of more than 6 percent on sales last year.

As a private company, Northern does not disclose sales and earnings.

Another money-losing chain, Grand Auto, Oakland, Calif., also changed hands in 1988. In June, PACCAR, the Seattle-based maker of heavy trucks, acquired the Grand chain for about $49.2 million in cash. Grand lost $5.9 million from operations in 1987, on top of $136,000 in 1986, and trimmed its store count to 107 from 113. Grand Auto sales rose to $172.5 million in 1987 from $165.8 million.

Flush with cash from a resurgence in heavy trucks, PACCAR had purchased last September the 25 stores of Al's Auto Supply, Everett, Wash., for an undisclosed sum. To acquire Grand, PACCAR paid $16 a share, almost twice the $8.25 a share Grand was trading for when PACCAR announced its offer in January.

Fears of a hostile takeover, possibly by corporate raider Herbert Haft and his Dart Group, led to new owners for Chief Auto Parts, now Seagoville, Texas (Dallas), and stunted its growth for three quarters.

Last July, the Southland Corp., which then owned Chief along with the 7-Eleven convenience store chain, announced it was going private through an LBO after a corporate raid was threatened.

The stock market crash on Oct. 19 soured the junk bond market, though, and delayed the Southland LBO by the Thompson family for several months. That postponed the sale of Chief for $130 million, to reduce Southland's LBO debt, until April 29, 1988.

Chief Expands After Sale

The new private owners of Chief are a partnership of management and Shearson Lehman Brothers. During those months, Chief expansion was put on hold. In rapid succession following the sale, however, it opened 14 stores that had been in the works to push its store count to 470. But further expansion in 1988 remains up in the air.

Nationwise, Columbus, Ohio, also has grown by acquiring a smaller chain. Starting 1988 with 200 stores, Nationwise in February paid $10.6 million for the 75 stores of Columbus-based Guarantee Auto. The acquisition adds $52 million in sales to an 1987 Nationwise estimate of $233 million.

The automotive chain controlled by grocery wholesaler Malone & Hyde has a new name. To settle a lawsuit brought by Radio Shack, the chain, once called Auto Shack, has changed the name of its 420 stores to AutoZone.

Malone & Hyde, Memphis, Tenn., which went private in 1985 through a $585 million leveraged buyout, has agreed to be acquired by another grocery wholesaler, Fleming Cos., Tulsa, Okla. The transaction, valued at $600 million, excludes AutoZone, which its parent company spun off as a separate corporation in February 1987, as the first step toward taking it public.

The owners remained unchanged: a management group that includes Malone & Hyde chairman J.R. Hyde III and AutoZone president Peter Formanek, which owns 30 percent, and Kohlberg, Kravis and Roberts, the financiers specializing in arranging LBOs, owners of 70 percent.

"It is reasonable to assume" that the owners will take AutoZone public in the next 24 months, said Malone & Hyde spokesman Gary Burhop.

AutoZone is "enjoying a very strong earnings growth," Burhop said. "Nobody would believe what those stores are doing."

Whatever price a piece of AutoZone fetches from the public, it would appear to be largely profit. The owners already have realized a $15 million profit above what they paid for the entire operation through the sale of the wholesale grocery and retail drug store businesses announced last month. The chain also garnered an undisclosed sum in selling its 30-store Sunset sporting goods division in 1985.

The $130 million price paid for Chief Auto isn't comparable to AutoZone's value because Chief stores are different and much smaller, Burhop said.

In its continued drive to develop into a national chain, Pep Boys—Manny, Moe & Jack, Philadelphia, has purchased two sites in Oklahoma City for 1989 expansion and is seeking two others. As an expansion move out of its new Atlanta hub, Pep Boys is re-entering the North Carolina market sometime in 1988, starting with Charlotte.

In a less happy development, Tulsa-based OTASCO retrenched last year by closing 42 money-losing stores and selling its wholesale division. The steps slashed sales in 1987 to $275 million from $309 million in 1986.

The unprofitable stores closed represented 16 percent of total units but accounted for only 10 percent of sales. Employee-owned, OTASCO refuses to disclose whether it made or lost money on 1987 operations or how the store closings and sale of its wholesale division will affect profitability.

CE Chains Slow Growth in Lackluster Market

Top CE Specialty Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1987	1986		12/88*	1/88	
Circuit City Richmond, Va.	$1,350	$1,011	33.5%	125	105	25,000
Highland Superstores Taylor, Mich.	753	656	14.8	83	72	15,000
Silo Philadelphia, Pa.	750	600	25.0	210	150	8,000
Best Buy Minneapolis, Minn.	439	240	82.9	43	40	17,000
The Federated Group City of Commerce, Calif.	437	430	1.6	61	68	30,000
Crazy Eddie Edison, N.J.	315	353	(10.8)	43	42	8,000
Tops Appliances Edison, N.J.	280	260	7.7	2	2	50,000
Fretter Livonia, Mich.	250	273	(8.4)	53	47	15000
Newmark & Lewis Hicksville, N.Y.	242	214	13.1	52	46	9,000
The Wiz New York, N.Y.	218	200	9.0	26	24	8,000
Audio-Video Affiliates Dayton, Ohio	212	229	(7.4)	125	117	20,000
American TV Madison, Wis.	199	160	24.4	7	6	60,000
Trader Horn Hasbrouck Heights, N.J.	140	135	3.7	16	15	8,000
Luskins Baltimore, Md.	127	140	(9.3)	44	44	10,000
The Good Guys San Francisco, Calif.	120	89	34.8	18	15	13,000
Brick Church Orange, N.J.	100	100	0.0	40	22	10,000

*projected

Source: DSN research

Nationwide DSN Report

While the antics of Crazy Eddie founder Eddie Antar grabbed most of the headlines, other CE retailers were making news as well in 1987.

The market as a whole was decidedly lackluster, but chains like Richmond, Va.-based Circuit City, Brooklyn, N.Y.-based The Wiz and Philadelphia's Silo racked up record years, and Minneapolis-based Best Buy nearly doubled its 1986 sales, rocketing from $240 million to $439 million last year.

Best Buy's performance came on the heels of a 113 percent sales gain the previous year. Much of that year's growth was attributable to store expansion (it grew from 23 to 40 stores), but this year, the gains were made primarily in existing stores. The 83 percent gain moved the chain from a ranking of 8th place nationally last year to No. 4 this year.

Overall, there were several changes in top chain ranking this year. While the first three (Circuit City, Highland Superstores and Silo) held their positions, most others shifted up and down. Those on the way up included Best Buy, Newmark & Lewis (9th from 10th), The Wiz (10th from 11th) and Trader Horn (13th from 14th). San Francisco-based The Good Guys, which increased its sales 35 percent to $120 million, was the sole new chart entry, at 15th place.

Best Buy's jump to 4th place pushed several chains back. Federated, Crazy Eddie and Fretter Appliance all dropped one place in the ranking. Audio-Video Affiliates was the only chain to lose more than one place on the ranking, dropping from 9th to 11th. Luskins and Brick Church each dropped one place. Tops Appliances (7th) and American TV (12th) both held steady.

Best Buy Leads Gainers

While Best Buy's 82.9 percent sales leap easily led the field, other chains showed some healthy results. Circuit City increased sales 33.5 percent to $1.35 billion, while Silo (25 percent), American TV (24.4 percent) and The Good Guys (34.8 percent) all posted significant gains. Highland Superstores (14.8 percent) and Newmark & Lewis (13.1 percent) also showed double-digit gains. Other gainers were Federated, Tops Appliances, The Wiz and Trader Horn, with Brick Church's sales flat.

Crazy Eddie, which showed a 10.8 percent drop in sales, mostly due to out-of-stocks that resulted when some suppliers stopped shipments, was the biggest loser on the chart, but Luskin's (down 9.3 percent) also lost a lot of ground. Fretter and Audio-Video Affiliates were the other losers.

Most of the growth was derived from rapid expansion and cannibalization of competitors' markets; overall, the CE market hit the doldrums. Sales of VCRs dropped off for the first time, dipping from $5.3 billion to about $5.1 billion in total sales. Audio systems, non-cellular telephones, blank videocassettes and home satellite systems also lost ground, according to the Electronic Industries Association.

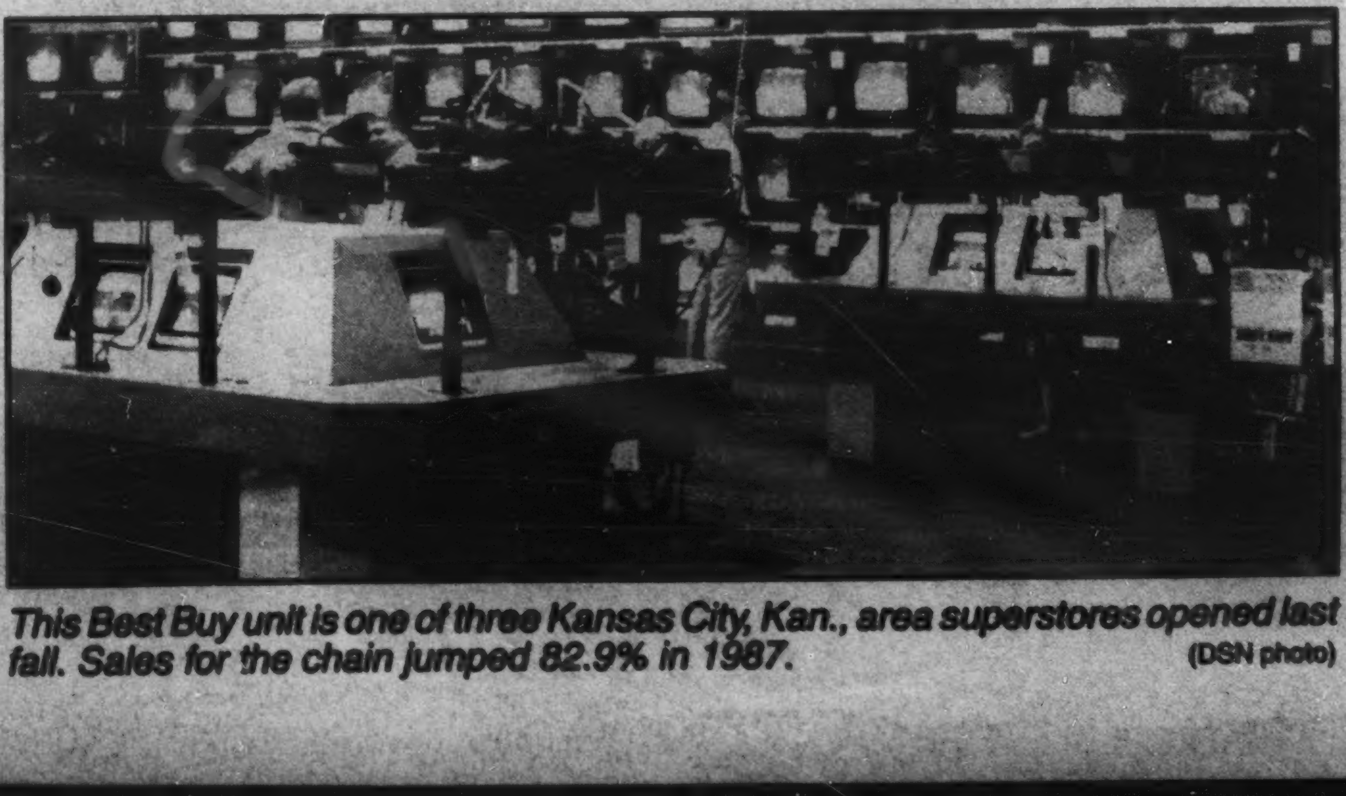
The ground was made up by the hot CD, camcorder and cellular phone product areas, but the net result was nearly flat growth. Overall, home electronics sales inched up to the $31 billion mark from $30.3 billion, gaining only a little better than 2 percent.

Compact disc technology was perhaps the biggest news in 1987, growing from zero business in 1984 to over a million units sold last year. With sharp drops in prices brought on by more competition, CD players set a record in moving from the audiophile to the general public and, as prices continue to drop, it's expected that CD hardware sales will continue to soar.

Last year also saw the start of the home office boom, and several CE chains got in on the ground floor. This year, most chains plan to increase their commitment to the home office market. Crazy Eddie, for example, plans to add computer/home office departments to all of its stores by year-end, and several larger chains have made commitments to leading computer companies for this fiscal year.

In other categories, last year was not a good year in the new product category, and 1988-89 doesn't look much better. The most publicized new product, digital audio tape players and recorders, are at least two years away from the mass market. Teac, which will introduce the first recorders to the U.S. market this month, has attached a $5,000 price tag to the first few, and it is unlikely that the price will fall below $1,000 in the near future. The players, primarily car units, are also expensive ($1,000-$1,500), although those prices should drop more quickly.

The problem there is that there is virtually no software available for the machines. A few small labels have introduced a limited selection, mainly in the easy-listening jazz area. This may appeal to early users of the technology, who will be mainly older consumers with luxury cars. The shortage of music will probably hurt what growth the industry could have expected at the present price point.



This Best Buy unit is one of three Kansas City, Kan., area superstores opened last fall. Sales for the chain jumped 82.9% in 1987. (DSN photo)

Tandy's home CD player is another "hot" product which probably won't have much impact on the market in the near future. According to the company, the first units are about 18 months to 24 months away, and it seems that the recorders are more a computer product than an audio product.

With most of the hottest products (the above, Super VHS, portable video players from Sony, CD graphic, etc.) at least a year away from wide availability, projections for 1988 growth are conservative, generally around 2 percent. The hottest area for 1988, home office equipment, will account for much of that growth, and with the arrival of office supply warehouse operations, CE chains may not benefit as much as they have from other electronics trends.

The same holds true for the exploding home video game market, where CE specialists will face tough competition from toy chains and traditional discounters. The growth of the category will also be stunted somewhat by a shortage of supply from some industry leaders.

With that in mind, most chains are forsaking expansion for business development. Apart from Silo, which plans to add 60 stores this year, the bulk of CE retailers have announced modest or even negative growth this year. Attention will be spent, instead, on becoming more competitive in established markets, most retailers said.

’88 Growth to Come from Top Three Clubs

Nationwide DSN Report

Two diverse trends that reflect past growth patterns will drive the membership warehouse industry this year to a record $13.4 billion in sales.

The trends are:

- Continued growth in sales and stores by the industry’s Big Three more profitable chains, Price Club, Sam’s Wholesale Club and Costco. Together, the trio, whose sales amounted to over $7.3 billion last year or 61.9 percent of the industry’s $11.8 billion in volume, will unveil 31 new wholesale clubs or about half of the industry’s total growth of about five dozen new units during 1988.
- Limited growth by the remainder of the industry as chains strive to boost their fledging earnings, in the case of PACE, or overcome red ink and become profitable, like The Wholesale Club and Warehouse Club.

Accompanying these trends will be two specific newsworthy notes.

Sam’s Set to Pass Price Club

Sam’s is set to become the top volume chain this year with over $4 billion in sales, passing Price Club, which has been the leader up until now. Sam’s is already the No. 1 chain in stores with 84 units, almost double that of Costco’s 43 and twice that of the Price Club’s 37.

Makro Targeted for Growth

Makro, up to now a minor player, has been targeted for a major role in the industry as a result of its recent acquisition by K mart Corp. The four-store membership warehouse club’s new parent envisions the chain growing to 20 units, predominantly in the Northeast, by 1990, and more than tripling its sales to $1 billion.

Makro, however, is an atypical membership warehouse in that its 25,000 sku’s provide members with a full line of grocery and general merchandise, including fashion apparel and goods in consumer-size packs, not just institutional sizes. All the other warehouse clubs merchandise a highly selected mix of just 4,000 sku’s, with institutional sizes and business-oriented goods as the predominant offerings.

On the operations side, most membership warehouses are focusing on boosting their services to business members, their key customer group that usually accounts for about 75 percent of sales. These efforts range from offering proprietary credit cards, the most common new service, to the addition of new departments like optical, pharmacy, bakery, fresh meat and fish, and even gas stations and automobile buying services.

The approximately 300 warehouse clubs that dotted the nation last year left the industry plenty of room for growth. It also meant that wholesale clubs, unlike other merchandising businesses, weren’t involved in extensive head-to-head competition.

The one major exception was Southern California, home to the industry’s founding chain, Price Club, which is now battling five other membership warehouses with units in the area—Costco, PACE, Price Savers, Buyer’s Club amd Club Wholesale.

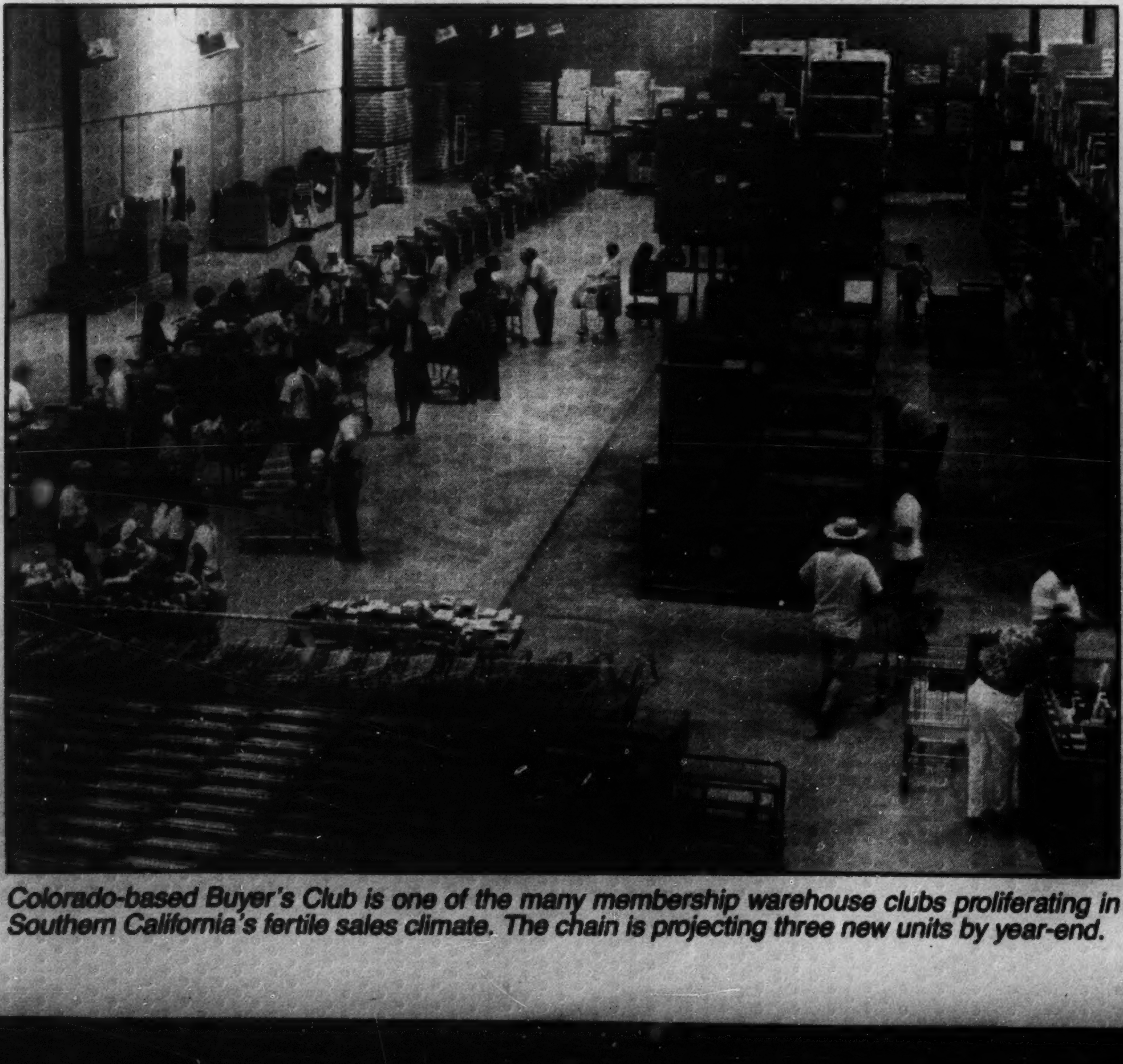
While only one or two wholesale clubs operate in most other markets, it doesn’t mean that these chains have an easy time because of the lack of competition. In fact, stores in the Midwest have taken twice as long to become profitable as those on the East and West Coasts because of the lower population density in markets in the nation’s mid-section.

In two Midwest markets warehouse clubs have actually shut stores. The Warehouse Club closed two in the Chicago area and these units were then taken over by American Wholesale, which then also shut the stores. In Minneapolis and Milwaukee, Costco closed three clubs, one of which was acquired by The Wholesale Club, which already had units in both markets.

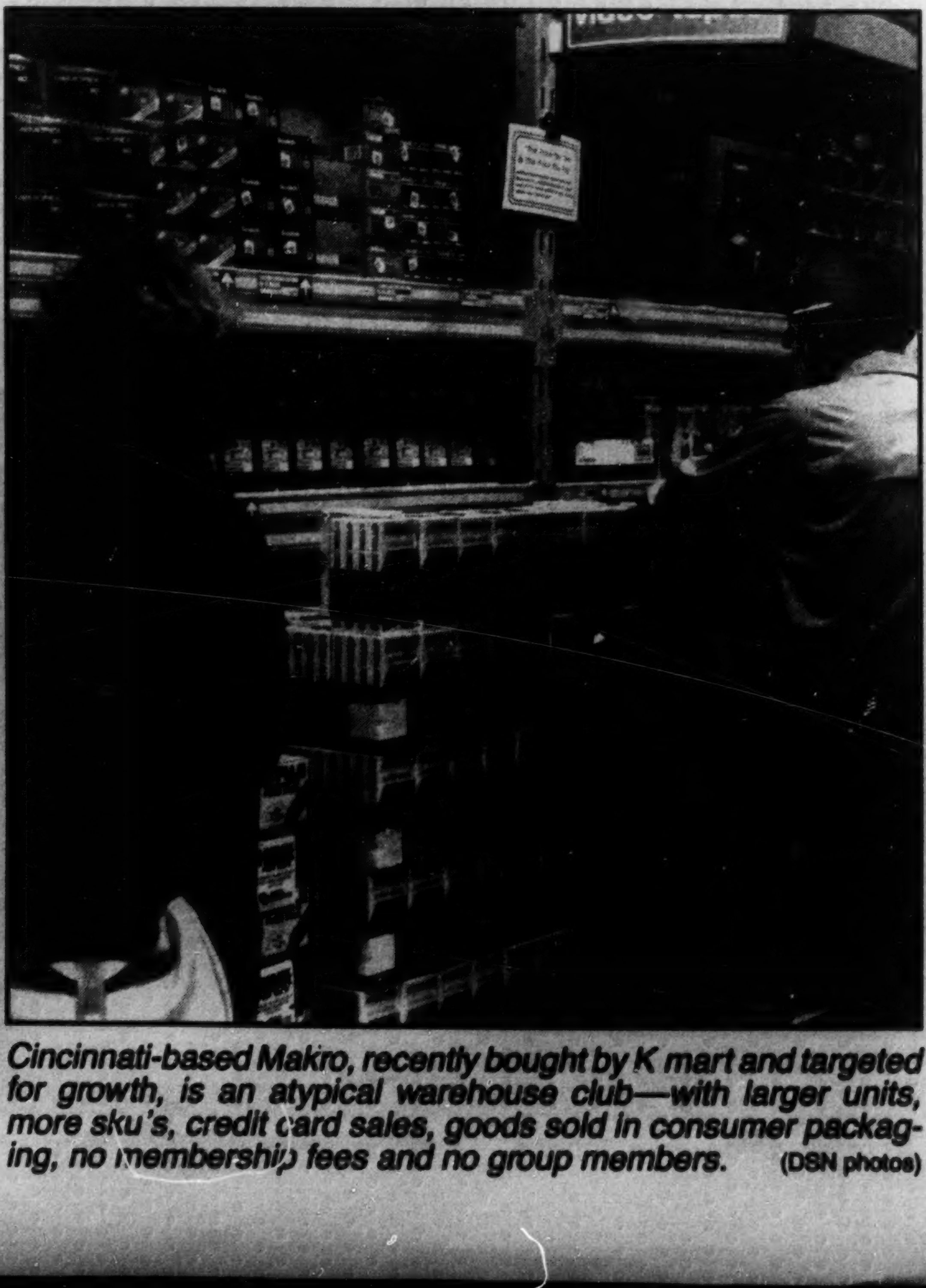
Top Membership Warehouse Clubs

Chain	Sales (In Millions)		Percent Change	Number of Stores		
	1987	1986		1/88	1/87	Proj. 12/88
Price Club San Diego, Calif.	$3,323	$2,667	24.6%	37	34	41
Sam’s Bentonville, Ark.	2,711	1,678	61.6	84	49	102
Costco, Seattle, Wash.	1,370	747	83.4	43	38	52
PACE, Aurora, Colo.	940	595	58.0	32	25	39
BJ’s Wholesale Club Natick, Mass.	575	350	64.3	19	16	22
Makro, Cincinnati, Ohio	300	300	0.0	4	4	6
Price Savers Salt Lake City, Utah	300	174	72.4	12	6	17
The Wholesale Club Indianapolis, Ind.	272	158	72.2	15	11	18
Warehouse Club, Niles, Ill.	228	157	45.2	12	14	12
Buyer’s Club Englewood, Colo.	120	80	50.0	4	3	7
American Wholesale Richardson, Texas	100	50	100.0	4	2	2

Source: DSN *research*



Colorado-based Buyer’s Club is one of the many membership warehouse clubs proliferating in Southern California’s fertile sales climate. The chain is projecting three new units by year-end.



Cincinnati-based Makro, recently bought by K mart and targeted for growth, is an atypical warehouse club—with larger units, more sku’s, credit card sales, goods sold in consumer packaging, no membership fees and no group members. (DSN photos)

Toy Retailers Battle Back After Slow Year

Nationwide DSN Report

Toys "R" Us and Kay-Bee Toys posted strong results for 1987, although for most retailers the year was punk. And for toy manufacturers, the year was a disaster, with Coleco suffering severe losses and Worlds of Wonder struggling to survive in Chapter 11 bankruptcy.

At retail, toy sales were basically flat at $12.5 billion in 1987, estimated the Toy Manufacturers of America, a trade group. Unit sales increased 13 percent, however, meaning that unit prices declined as back-to-basics became the catchword.

With flat sales, any market share that any toy specialty retailer gained came at the expense of someone else. And that someone is the general merchandise discount store, retail analysts say.

The extremes in 1987 results are glaring. Industry leader Toys "R" Us, Rochelle Park, N.J., enjoyed a 21 percent gain in pre-tax profits and a 28.3 percent jump in sales. On the other hand, Toys Plus, once of St. Charles, Mo., ran into unexpected head-to-head competition with TRU in Texas, and burst its bubble in bankruptcy last January. Its 34 stores and $27.2 million in 1986 sales are ancient history.

Child World Posts 19.1% Sales Rise

Despite intense price-cutting competition with TRU, Child World, No. 2 in sales, logged a 25 percent increase in pre-tax profits to $26 million from $20.8 million in 1986. That still left Child World below its 1985 profit level of $26.9 million. Child World also captured a larger market share with a 19.1 percent sales increase.

Taking the place of Toys Plus as developing chains are Tons of Toys, Wareham, Mass., which vows to enter only secondary markets that are too small for TRU, and Wisconsin Toys, Milwaukee, Wis., which seeks to carve out a market niche with its closeout toys under the name Toy Liquidators.

Along with TRU, No. 3 Kay-Bee, the toys division of Melville Corp., also enjoyed a banner year. Sales rose 25.3 percent to $610 million in 1987 from $487 million in 1986. Kay-Bee's strong profit performance accounted for most of the 24 percent operating profit increase to $102.8 million in '87 from $82.9 million in '86 for Melville's combined toy and household furnishing division.

Kay-Bee and TRU are the two major factors in toy retailing, said Robert Schweich, retail analyst for Wertheim Schroder, New York. TRU, of course, takes the supermarket approach, while Kay-Bee follows the convenience store route, usually locating in malls, the analyst said.

The Lionel Corporation, Philadelphia, which is the fourth-largest toy retailer, was marginally profitable last year, Schweich said. Pre-tax profits fell 36.6 percent to $6.8 million in 1987 from $10.7 million, although sales rose 19.9 percent to $344 million from $287 million in 1986.

A change in accounting rules regarding inventories allowed Lionel to report a net income of $5.8 million, or 43 cents a share, down from $8.7 million and 65 cents a share in 1986.

Lionel operates 78 toy supermarkets under the names Lionel Kiddie City, Lionel Playworld and Lionel Toy Warehouse in 16 states.

For Greenman Bros., the only other major player in toy retailing, 1987 also was a weak year. Combined wholesale and retail sales slipped to $242.7 million from $244.2 million in 1986. Its 321 Circus World and four Play World retail stores accounted for 63 percent of revenues. Same store sales were flat last year.

Company losses diminished to $2.9 million, or 48 cents a share, in the year ended Jan. 30, 1988, from $3.5 million and 59 cents a share for fiscal 1986.

Among cost-cutting steps, Greenman slashed top executive salaries by 20 percent for 1988 and froze most executive salaries for 1989. In addition, it closed 14 stores last year and opened six, a net decline of eight. No new stores for 1988 appear on its agenda.

Toy King, Orlando, Fla., is retrenching even more dramatically. Operating closeout stores mostly in factory outlet malls, Toy King is down to 44 stores from a 1985 high of 58. Sales last year shrank to $12.5 million from $15 million in 1986 and $19 million in 1985. The privately owned chain lost an undisclosed amount of money for each of the last two years, remarked its new president, Robert King.

Toy & Sports Warehouse, White Plains, N.Y., which emerged from Chapter 11 bankruptcy in 1984, also cut back in 1987, closing one store. That trimmed sales to $9 million in five stores from $11 million and six units in 1986. Toy & Sports is replacing that store in 1988, however, and expects to add one more in the bargain.

Toys Plus went under because it opened stores in Texas cities where it never expected to bump heads with TRU, said industry analyst Schweich. But TRU opened in the same markets anyway, he said. In store count, Texas was the favorite state for both chains.

Tons of Toys, which logged $10.4 million in sales for the last eight months of 1987 in 12 stores, hopes to avoid that fate by opening stores in New England towns that are too small for TRU. Going public last May, TOT reported net earnings of $377,788, compared to $202,168 for the same months of 1986. TOT plans to open eight more stores in 1988.

Wisconsin Toys, which started 1988 with 24 stores, plans to open 27 more by the end of the year for a total of 51. Sales for its closeout chains, Toy Liquidators and Toys Unlimited, totaled $9 million last year and generated net profits of $682,000.

Karl's Toys, owned by Merchants West, Long Beach, Calif., also appears to be making money in a fragmented toy retailing industry, despite dominance by the giants. Sales rose to $28 million in 1987 from $21 million the previous year. Profits rose 22 percent from 1986, company chairman Joseph Chang said, although he declined to release actual figures for the privately owned company.

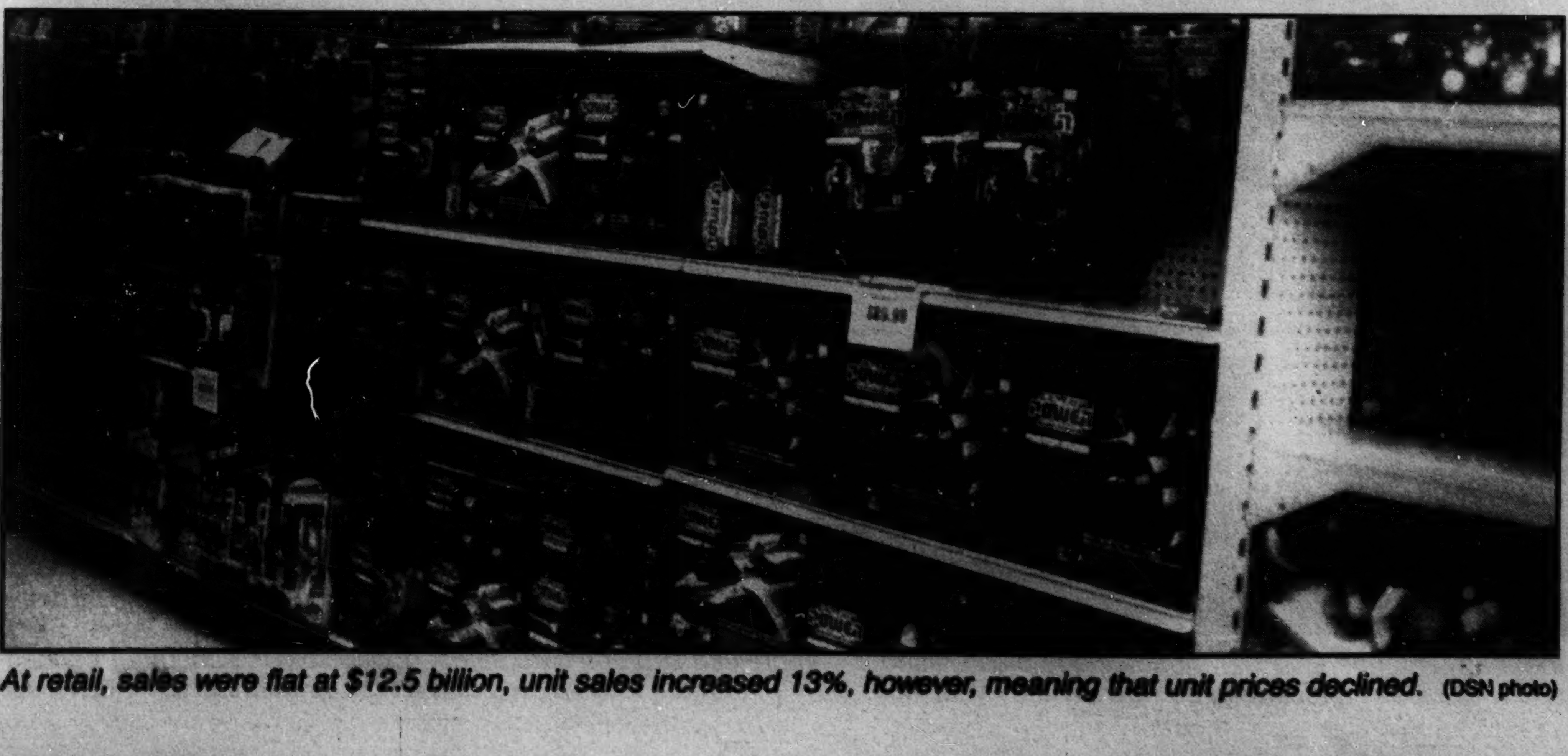
Karl's plans to add two stores to its 1988 total of 27.

Top Toy Specialty Chains

Chain	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change	Number of Stores 1/88	Number of Stores 1/87	Average Store Size (In Sq. Ft.)
Toys "R" Us* Rochelle Park, N.J.	$3,137	$2,445	28.3%	424	338	46,000
Child World Avon, Mass.	749	629	19.1	149	134	36,000
Kay-Bee Pittsfield, Mass.	610	487	25.3	676	639	4,000
Lionel Leisure Philadelphia, Pa.	344	287	19.9	78	65	93,000
Greenman Bros. Farmingdale, N.Y.	153	154	(0.6)	325	310	4,000
K&K Toys Norfolk, Va.	55	50	10.0	114	104	3,000
Karl's Toys Los Angeles, Calif.	28	21	33.3	27	26	5,500
Hobby Center Toys Holland, Ohio	13	12	8.3	26	26	2,400
Toy King/Toys & Gifts Outlet Orlando, Fla.	13	15	(13.3)	44	54	3,000
Tons of Toys Wareham, Mass.	10	5	100.0	12	1	12,000
Wisconsin Toys Milwaukee, Wis.	9	2	350.0	24	4	6,000
Toy & Sports Warehouse White Plains, N.Y.	9	11	(18.2)	5	5	16,500

**Toys "R" Us includes Kids "R" Us.*

Source: DSN *research*



At retail, sales were flat at $12.5 billion, unit sales increased 13%, however, meaning that unit prices declined. (DSN photo)

Apparel Off-Pricers Shake Off Shakeout Woes

Nationwide DSN Report

Despite a major softening in the women's apparel business during the second half of last year, most off-price apparel chains recorded healthy sales gains during 1987.

While apparel specialty chains like The Limited and Charming Shops, among many others, limped along to fiscal year-end with flat to modest 1987 sales, the top 11 off-price chains, as shown in the accompanying chart, saw sales jump 17.2 percent to $5.9 billion.

The shakeout among off-pricers over the last several years didn't claim any major casualties in 1987. And a couple of major off-pricers that struggled in '86 turned things around last year by refocusing their strategies on providing consumers with real value.

TJX Cos. Tops Marshalls as No. 1

Mainly due to the 22.7 percent sales growth experienced by T.J. Maxx during the fiscal year, TJX Cos.—which includes T.J. Maxx, Hit or Miss and the cataloger Chadwick's of Boston—is now the No. 1 apparel off-price company, topping Marshalls.

TJX, now a public company (Zayre Corp. retains a majority ownership), was also one of the most profitable off-pricers last year, posting a 27.7 percent increase in real net income, along with a 17.8 percent sales gain.

Unlike the family-apparel oriented T.J. Maxx, Hit or Miss, being a more high-fashion oriented women's wear off-pricer, was hurt by the women's apparel slowdown during the last half of the year. Hit or Miss improved its sales by a mere 2.9 percent (estimated) last year. Ben Cammarata, currently acting president of Hit or Miss (as well as being president and ceo of TJX Cos. and chairman of T.J. Maxx), said recently that he instituted changes at Hit or Miss to make it "less vulnerable to the whims of fashion. We want to move the chain to more value price points."

Marshalls is a chain that turned things around in '87. The chain doubled its sales growth last year (13.8 percent gain in 1987 compared to a 7 percent 1986 rise) to top $1.6 billion in sales, and profits also improved.

Marshalls, like many other off-pricers, must compete for department store and specialty store customers, offering the high-visibility brands that customers want. Marshalls had gotten away from that and wasn't rigorous in upscaling its store environment.

Now the huge off-pricer, which added key top management last year (see Marshalls chain profile, page 151), is back on track, having refocused its merchandise mix to higher-end brands and labels.

Ross also improved its store-for-store sales last year and its earnings stabilized after an $11.7 million loss before taxes in 1986. Since shifting to a more family-oriented apparel strategy and adding cosmetics and fragrances, petites, and large sizes for men and women, Ross staged a mini-comeback in 1987. Comparable store sales were up 7 percent—8 percent in the first quarter, 11 percent in the second, no increase in third quarter and a 9 percent increase in fourth quarter.

Growing at a rate in league with T.J. Maxx was Burlington Coat, which saw sales jump 25.6 percent last year. The off-pricer had a particularly strong fourth fiscal quarter and holiday selling period, considering the general apparel industry softness, and has been aggressively upscaling its store environment. Net income also improved by 16.9 percent to $20.3 million last year.

Loehmann's was an undistinguished 1987 performer, growing by just 3.4 percent after a 9 percent sales growth in 1986. Parent May Co. has been closemouthed about the chain. Store growth plans are modest.

Top management of Filene's Basement are attempting to take the Massachusetts institution private. Campeau Corp., as is the case with Gold Circle and MainStreet, announced early on that it wasn't interested in retaining the chain. The Basement had a respectable 1987, with a comparable store sales increase of 12.1 percent (it opened no new units last year and none are planned for this year).

From October 1986 through October of last year, Syms quietly added about 50 percent to its existing selling space. In addition to a 14.3 percent sales jump last fiscal year, Syms also registered a 20 percent jump in net income to $17.8 million from $14.8 million in 1986. It doubled the size of its Bergen County, N.J., unit, opened a new distribution center and greatly improved its internal systems to better track sales.

Kids "R" Us went through the roof last year, with estimated sales up 100 percent to $250 million. The off-price children's apparel division of Toys "R" Us will be opening 10 units this summer alone in a new market, Southern California, and sales are projected to hit $400 million by the end of this year.

Clothestime Posts 11.2% Sales Gain

Clothestime had a tough second half last year, due mainly to the women's apparel slowdown, but the California-based off-pricer managed a healthy 11.2 percent sales gain overall in 1987.

The Dress Barn fared better, recording a 28.1 percent sales increase last year. In fiscal 1988, estimates call for the women's apparel off-pricer to top $200 million for the first time. Net income grew to $12.9 million from $9.2 million in 1986.

The $28 million purchase of NBO Stores, which has been a steadily growing chain, by Dylex Limited of Canada, was recently completed. Sales were up last year by 17.8 percent to $86 million.

One-price apparel stores also experienced strong growth last year and have carved out a niche below the above mentioned off-pricers and above the full-line closeouters.

Top Off-Price Apparel Chains

Chain	Sales (In Millions)		Percent Change	Number of Stores		Average Store Size (In Sq. Ft.)
	1987	1986		1/88	1/87	
TJX Cos., Framingham, Mass.	$1,644	$1,395	17.8%	750	687	—
T.J. Maxx	1,288	1,050	22.7	265	226	25,000
Hit or Miss	350	340	2.9	485	461	3,500
Marshalls, Wakefield, Mass.	1,603	1,409	13.8	286	261	29,000
Ross Stores, Newark, Calif.	576	534	7.9	131	121	3,000
Burlington Coat Burlington, N.J.	491	391	25.6	104	87	55,000
Loehmann's Bronx, N.Y.	334	323	3.4	80	90	15,000
Filene's Basement Wellesley, Mass.	278	248	12.1	22	22	25,000
Syms, Lyndhurst, N.J.	255	223	14.3	18	17	50,000
Kids "R" Us Rochelle Park, N.J.	250	125	100.0	74	43	20,000
Clothestime Anaheim, Calif.	179	161	11.2	338	263	4,000
Dress Barn Stamford, Conn.	173	135	28.1	302	235	4,000
NBO Stores Secaucus, N.J.	86	73	17.8	28	21	8,500

Source: DSN research

The extraordinary success of T.J. Maxx fueled TJX Cos.' climb to the top of the off-price apparel industry in 1987. (DSN photo)

Sporting Goods Stores Grow in Size and Scope

Top Sporting Goods Chains

Chain	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change	Number of Stores 1/88	Number of Stores 1/87	Average Store Size (In Sq. Ft.)
Herman's Carteret, N.J.	$762	$630	21.0%	242	200	10,000
Thrifty Corp. Los Angeles, Calif.	494	359	37.6	160	149	NA
Oshman's Easton, Texas	333	323	3.1	213	214	10,000
Sportmart Niles, Ill.	212	141	50.4	18	12	40,000
Academy Houston, Texas	64	58	10.3	22	18	NA
Irving's Sport Shops Springfield, Va.	15	13	15.0	18	18	4,000

Herman's includes Sunset Sports.
Thrifty Corp. includes Big Five, Dave Cook, Gart Bros., Michigan Sporting Goods and Casey's Sporting Goods chains.

Source: DSN research

Nationwide DSN Report

Bigger is better, sporting goods retailers seemed to be saying in 1987. The drive to mega-retailing was a two-pronged attack. On one hand, new warehouse-style operations like Fort Lauderdale-based Sports Authority sprang up around the country; on the other, existing regional chains merged into larger conglomerates through acquisitions, mainly those engineered by California-based Thrifty Corp., which is now poised to become the country's second largest sporting goods specialty retailer in store count.

Re-emergence of Oshman's

The year was also marked by the reemergence of troubled Oshman's, presently second in store count to Herman's in the specialty sporting goods field. Suffering from declining sales in its native Oil Patch market, and evidently unhappy with its ultra-traditional look, the company formed a new division, Super Sports, aimed at capturing a share of the upscale sports equipment and apparel market. In a daring move, Oshman's opened the first store in Princeton, N.J., virtually in rival giant Herman's back yard.

The Princeton store (two more are scheduled to open, one on Long Island and one in northern New Jersey, probably Union) is a retail marvel. Drawing on the high-tech look of upscale boutiques, Super Sports' strategy appears to be to apply a futuristic soft lines orientation to what has been a relatively staid field. The store features a "shop-within-a-shop" layout based around a central racetrack. While all hard line products are represented, the accent is distinctly on name-brand fashion and dual-purpose apparel.

Super Sports to Open 12 Units in '88

Simultaneously, the company upgraded the apparel sections of its traditional stores, choosing to oncentrate on name-brand fashion-forward goods. Whether these strategies can reverse the chain's recent fortunes (sales increased only slightly, to $332 million, last year after a modest 9 percent increase in 1986) is open to question, but initial results from Super Sports, which recently opened regional headquarters near the Princeton store, are reportedly "very positive." The company plans to open about 12 new stores this year, of which several will probably be Super Sports outlets.

Herman's, the nation's largest chain, continued the rapid growth that nearly doubled the company's size two years ago. After adding nearly 80 stores in 1986, the company added another 40 or so last year. This year, growth will slow somewhat, to about 20 stores. The huge bulge of store openings was due primarily to entering new markets, making Herman's the only truly national chain in this market.

The company was purchased by an English concern, Dee Corp., and no longer breaks out its financial results. However, the company apparently increased sales by some 15 percent, to $762 million, last year. The company presently operates about 242 stores.

The third major player nationally is the sporting goods division of drug giant Thrifty Corp. The company has expanded its primarily Western store base by acquiring two independent chains in Colorado, Gart Brothers and Dave Cook Sports, and Niles, Mich.-based Michigan Sporting Goods.

Sportmart Adds 5 Megastores in '87

Niles, Ill.-based Sportmart, which added five of its 40,000-square-foot megastores over the past year, grew significantly in 1987 sales, to an estimated $212 million from an estimated $141 million in 1986.

The biggest news in 1987 was the decline of All-American SportsClub, the Los Angeles-based warehouse retailer. The chain, founded by HomeClub founder Bob McNulty, had countered rumors of impending store closings and vendor dissatisfaction with the addition of former Home Depot executive and merchandising whiz Pat Farrah early last fall.

Within two months, Farrah had left, and the company entered Chapter 11 shortly thereafter. Whether All-American SportsClub, which had racked up some impressive sales figures during its brief life, can survive is open to debate, but the concept gave birth to other warehouse approaches.

K mart to Debut Sports Giant

Included is a K mart-backed entry into specialty sports retailing, Sports Giant. K mart's department stores are considered the nation's leading sporting goods retailer, particularly in athletic equipment like baseball gloves, basketballs and so on, so the move seems to be a natural. So far, however, no actual stores have opened, and an attempt to purchase part or all of All American SportsClub was rejected. SportsClub president Bob McNulty said at the time that an offer had been made, presumably by K mart, but that it was extremely low.

Overall, the sporting goods industry had a strong 1987. Sales of outdoor goods, like camping equipment, were particularly strong. A beautiful 1987 spring, nationwide, contributed to an above-projection year in those categories, and overall, the industry showed a gain of 5 percent.

Prospects for 1988 are, so far, positive. Spring '88 was a near total bust, with cold, wet weather through much of the country, but sales rebounded strongly in late May and early June. U.S. consumers have come back to sports (as opposed to exercise), and any outdoor activity seems to be on the upswing. The strong rebound sports products experienced last year even revived the dormant exercise equipment market, which settled down to become a highly profitable basic in the category.

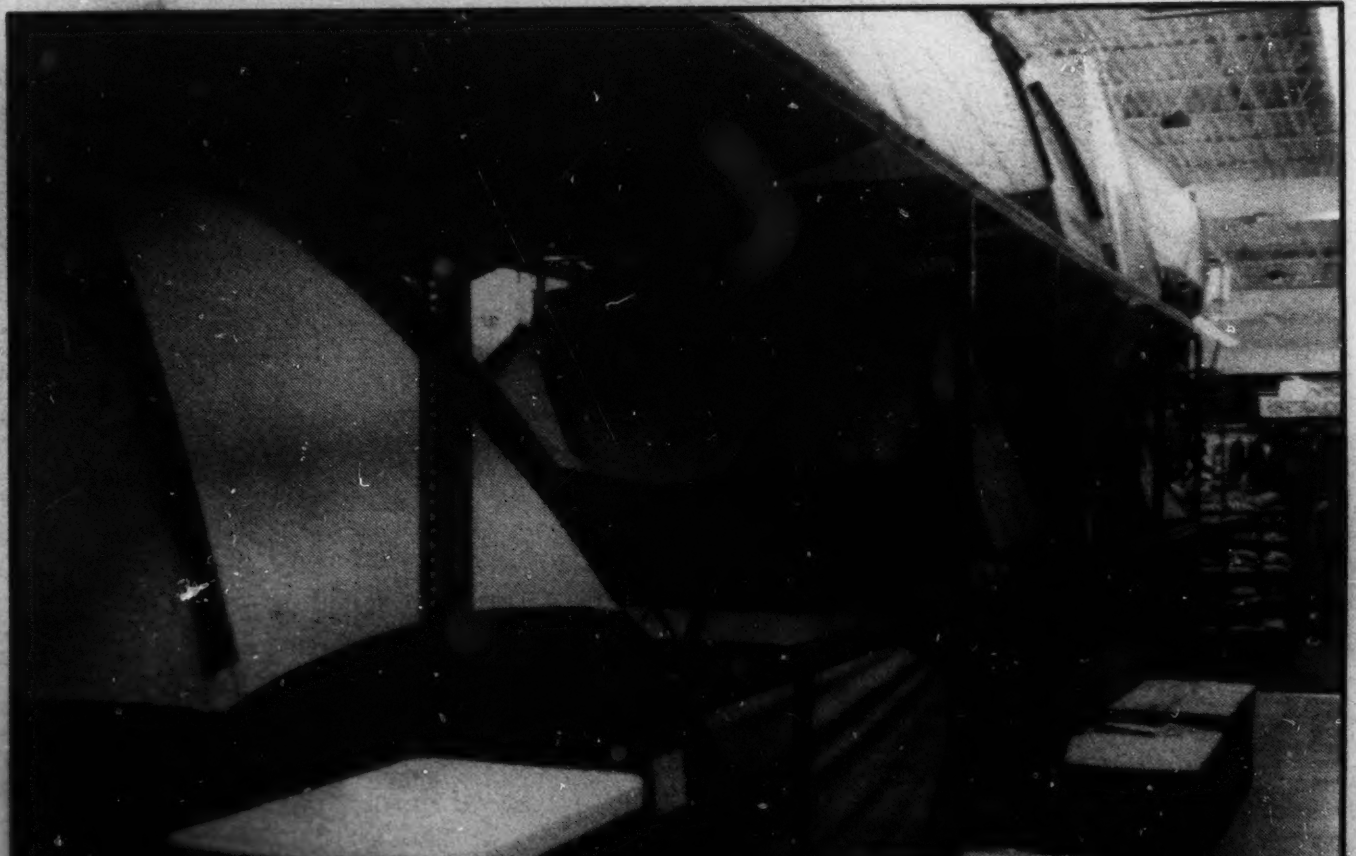
Also coming back was the near-dead hunting market, which grew steadily throughout the fall. Fishing, which is experiencing a major boom, was one of the fastest growing categories last year and kept up the rate this year.

Pressure from Discounters

However, chains will be under increasing pressure this year. Major discount stores like K mart and Wal-Mart have re-emphasized their sporting goods selections, and others are jumping into the market. This will keep extremely strong price pressure on the specialty stores, particularly in the important entry-level products like fishing kits and starter rifles.

On the other end of their business, chains are facing competition in sports wear from discount specialty outlets, which have boosted their sports apparel offerings and managed to acquire many of the branded products sporting goods retailers have considered their exclusive domain.

With the increasing specialization in the sports shoe industry, the wide selection and top brand names sold by sports chains have given them a market advantage.



Despite poor spring 1988 weather and supply shortages, sales of camping equipment have remained strong after a record-setting year in 1987. (DSN photos)

ANNUAL REPORT OFFICE SUPPLY WAREHOUSES

Office Supply Megastores' Sales to Hit $500M

Nationwide DSN Report

Last year, office products megastores became a distinct retail industry segment with about eight retailers operating stores across the country.

Today, there are 13 retailers with about 90 stores generating sales estimated by industry sources at between $300 million and $400 million. By the end of this year, *DSN* projects the industry will have more than 150 outlets with sales topping $500 million.

So far this year, five new retailers have joined the fray and the first of the megastore operators, Office Depot, Boca Raton, Fla., became a public company. Staples, the first office products supply retailer to open a soup-to-nuts supply store, is expected to go public next year.

Office supply megastores service small- to mid-size businesses. They generally average 15,000 square feet to 20,000 square feet and carry more than 5,000 sku's of office-related merchandise discounted up to 70 percent off manufacturer list prices. Many claim a "bare bones" merchandising approach in the warehouse format, but some are already upgrading the look of their stores to reflect customer shopping preferences.

Services such as printing, copying, facsimile machines, delivery and catalog shopping are available, generally for an additional fee.

In the last few months, several new retailers entered the megastore business, including Office Shop Warehouse, a division of Ames' G.C. Murphy Stores, and Office Square, part of K mart's Builders Square division.

In addition, two traditional office stationers, Arvey Paper & Supply in Chicago and Jaffe's of Miami both redefined their business objectives and are now expanding their chains with the megastore concept.

Office Supply Megastores

Chain	First Store Opened	Number of Stores 1/88	Number of Stores 12/88*	Store Size (In Sq. Ft.)	SKUs
Staples Newton, Mass.	May 1986	16	24	15,000-20,000	6,000
Office Depot Boca Raton, Fla.	November 1986	14	26	19,000	6,500
Office Station Carol Stream, Ill.	January 1987	1	1	13,000	2,000
Office Club Concord, Calif.	January 1987	5	17	20,000	2,000
Office America Richmond, Va.	August 1987	1	5	26,000	5,000
WORKplace St. Petersburg, Fla.	November 1987	3	11	20,000-25,000	9,000
Office Shop Warehouse McKeesport, Pa.	March 1988	1	4	15,000	6,400
Office World Great Neck, N.Y.	April 1988	2	8	25,000	5,000
Bizmart Arlington, Texas	May 1988	3	8	20,000	4,000
OfficeMax Cleveland, Ohio	June 1988	2	4	25,000	6,000
Office Square San Antonio, Tex.	Summer 1988	0	1	25,000	7,000
Jaffe's Miami, Fla.	1963†	7	11	15,000-16,000	8,000
Arvey Paper & Office Supplies Chicago, Ill.	1970†	36	40	8,000-26,000	6,000

**projected*

†First megastore opened in 1987

Source: DSN *research*

ANNUAL REPORT DEEP DISCOUNT DRUG CHAINS

Discount Drug Chains Target Full-Liners' Categories

Nationwide DSN Report

Deep discount drug retailers are continuing an aggressive expansion pace this year, placing additional pricing pressure on full-line discounters.

Carrying an array of products—from health and beauty aids, over-the-counter items, stationery, household cleaners and limited food items—deep discount drug stores are moving in on important discount store categories.

While these areas, because of low margins, are not great money makers for discounters, they are often promoted as traffic builders and do account for some 5 percent to 10 percent of sales.

However, like membership warehouse clubs, many customers choose to shop deep discount drug stores on a limited basis by stocking up on items and visiting only once or twice a month. Many discounters, on the other hand, can draw customers fairly often because of weekly circulars.

Discounters and other specialty stores are closely monitoring the deep discount drug concept, particularly its potential to siphon off sales. While much of a deep discounter's business is drawn from traditional drug retailers, some 20 percent to 30 percent comes from discounters, sources estimate.

Leading the deep discount drug store pack are three Midwest-based retailers—Drug Emporium, Phar-Mor and F & M—which account for over half the industry's volume.

Drug Emporium, the largest with 139 company-owned and franchised stores nationwide, added 23 stores in new and existing markets last year. Expanding the chain's coast-to-coast coverage were stores in Mobile, Ala., Albuquerque, N.M., and Nashville and Knoxville, Tenn.

This year, Worthington, Ohio-based Drug Emporium expects to open some 30 to 40 stores primarily in existing areas, which will take it beyond the approximately $800 million in sales it reached last year.

With sales at half this amount, Youngstown, Ohio-based Phar-Mor is outpacing Drug Emporium's growth rate. The chain added 52 stores last year, bringing it to a total of 74, and has plans of adding another 50 this year and 50 more in 1989.

The third largest chain, 54-store F & M, is also edging into numerous markets as it looks to become a 100-store chain by 1990.

Fueled mainly through acquisitions, the Warren, Mich.-based F & M doubled its number of stores last year. Much of the growth came from the purchase of 10 former Pathmark Super Drug stores from Supermarkets General Corp., a deal which brought F & M to the East Coast.

Other players beyond the three leaders include Marc's, Rockbottom, Freddy's, Howies and Drug Palace. While most of the deep discounters have backing from traditional drug store companies or operate independently, the ninth largest chain, dot Discount Drugs, has Wal-Mart behind it for support. Begun in 1983 as a Wal-Mart experiment, dot doubled in size last year to reach 12 stores, and had estimated sales of $46 million.

Top Deep Discount Drug Stores

Company (parent)	Headquarters	Sales (In Mils.) 1987	Stores 1987
Drug Emporium	Worthington, Ohio	$800	139
Phar-Mor	Youngstown, Ohio	400	74
F & M	Warren, Mich.	330	54
Marc's	Cleveland, Ohio	182	12
Rockbottom	Port Washington, N.Y.	175	25
Freddy's (Melville)	Woonsocket, R.I.	95	14
Howies (SDM)	Toronto, Canada	55	12
Drug Palace (Rite Aid)	Shiremanstown, Pa.	49	28
dot (Wal-Mart)	Bentonville, Ark.	46	12
Rx Place	New York, N.Y.	44	8
Drug World (SupeRx)	Cincinnati, Ohio	40	12
Cost Cutters (Community Distributors)	Somerville, N.J.	39	9
Drug Castle (Brown)	Springfield, Ohio	38	10
A.L. Price (Perry)	Detroit, Mich.	36	10
Wonder World (Pay Less NW)	Wilsonville, Ore.	30	14
Bud's (Peoples)	Alexandria, Va.	29	9
Value Giant (Pay Less NW)	Wilsonville, Ore.	25	4
Joel and Jerry's	Largo, Fla.	22	6

Source: Drug Store News *1988 survey,* DSN *research*

HYPERMARKETS ANNUAL REPORT

1988: The Year of Hypermarkets in the U.S.

Nationwide DSN Report

1988 could go down as the year of the hypermarket.

This year is liable to see the launching of four hypermarket chains in addition to the seven businesses that are planning to or already operating these combined grocery and general merchandise one-stop-shopping behemoths. And this fast-track growth comes on the heels of just a single hypermarket store, Biggs, in Cincinnati, until this past December, when Wal-Mart and Cullum Cos., a food wholesaler, joined forces to unveil Hypermart USA in Garland, Texas, a suburb of Dallas.

Wal-Mart quickly followed its pioneering move by opening a completely discounter-run Hypermart USA two months later in Topeka, Kan., with another two originally scheduled to open in the fall. Two of the four were planned as joint Wal-Mart/Cullum ventures and two were to be run just by the discounter with food sourced from another grocery wholesaler.

But the success of the first two Hypermart USAs has resulted in Wal-Mart canceling plans for a unit in the Ferguson, Mo., suburb of St. Louis. Wal-Mart underestimated the amount of parking it would need for a hypermarket in Ferguson.

With no additional parking space available, Wal-Mart decided to cancel the hypermarket and instead use the site for a Sam's Wholesale Club unit, which need less parking space.

Hypermart USA's success—the two stores together will do about $80 million in sales in their start-up year—helps explain the growing interest in the concept and the reason why traditional discounters like Harts, K mart and ShopKo have launched or are planning to start such ventures.

That's not to say that hypermarkets are an assured success. After all, Biggs, the first traditional European-style hypermarket opened in the United States, has been around since 1984 and its lackluster sales and red ink in the ensuing years have only been recently overcome. Biggs is due to open another unit in Cincinnati this month and one in Florence, Ky., in the fall.

Biggs was launched by Euromarché, the second-largest operator of hypermarkets in Europe. Its France-based rival Carrefour planned to open its first units in 1987 in Philadelphia and the Brookhaven suburb of New York City, to be followed by about 20 more stores in the Northeast over the next few years. Construction and zoning delays resulted in the Philadelphia unit opening in February, with Brookhaven due to be unveiled next year.

Hypermarkets in the United States

Company (Parent)	1987 Sales (In Millions)	Opening Date	Current Number of Units in Market	Proposed Markets
Biggs (Euromarché, Super Valu)	$90	October 1984	1 in Cincinnati, Ohio	Cincinnati, Ohio Florence, Ky.
Hypermart USA (Wal-Mart, Cullum Cos.)	Start-up	December 1987	1 in Garland, Texas 1 in Topeka, Kan.	Arlington, Texas Kansas City
Carrefour	Start-up	February 1988	1 in Philadelphia, Pa.	Brookhaven, N.Y.
Big Bear Plus (Harts, Big Bear)	Start-up	June 1988	1 in Bridgeport, Conn. 1 in Wintersville, Ohio	Wapakoneta, Ohio
American Fare (K mart, Bruno's)	Start-up	Winter 1988	0	Stone Mountain, Ga. Charlotte, N.C.
Auchan (Auchan)	Start-up	Fall 1988	0	Chicago, Houston
Twin Valu (ShopKo, Super Valu)	Start-up	Spring 1989	0	Cuyahoga Falls, Ohio Akron, Ohio

Source: DSN research

HOME SHOPPING SERVICES ANNUAL REPORT

Passive TV Shopping in Shakeout; Interactive Systems Testing

Nationwide DSN Report

The electronic retailing field is undergoing both a shakeout and a start-up phase at the same time.

The shakeout involves the passive television shopping segment, which has already seen the demise of about a dozen services during the past year. The net result is that this segment seems to be narrowing down to about a half dozen national teleretailing services and a handful of local and limited-reach telemerchants reaching consumers either on one cable system or a mix of broadcast and cable stations.

The start-up phase involves both interactive cable teleretailing and interactive computer shopping, although CompuServe's The Electronic Mall has been offering a videotex computer shopping service for almost 30 months.

In the former, one company, Telaction, has just launched its cable service, while two others, Main Street and the Cable Catalog Store, are in test modes.

In the latter, Prodigy last month began offering its innovative computer shopping and information service in three markets, Atlanta, San Francisco and Hartford, Conn., and expects to be in New York City and 16 other major metro markets by the end of next year.

The only unaffected portion of the business is the telephone and computer shopping segment, where Comp-U-Card has grown its electronic shopping service in the last four years from 200,000 customers to its current mix of 2.8 million telephone shoppers and 70,000 computer shoppers.

Passive television shopping, including the failed venture, was a $1 billion business last year, with volume expected to grow about 50 percent to $1.5 billion in 1988 and reach about $2.3 billion by the end of the decade.

Interactive cable and computer services are expected to generate about $1 billion in sales by 1990.

Electronic Shopping Services

Passive Television Shopping

Company	Sales (In Millions) 1987	Sales (In Millions) 1986	Cable Systems Carrying	Homes Passed (In Millions)
Home Shopping Network St. Petersburg, Fla.	582.1	160.2	1,300	14.9
Cable Value Network Minneapolis, Minn.	127.6	27	1,700	18.0
QVC West Chester, Pa.	112.3	2.2	800	13.0
America's Shopping Channel San Diego, Calif.	19	—	5	1.0
TelShop Santa Monica, Calif.	7.6	—	700	10.0
The Fashion Channel Carson, Calif.	5.5	—	700	7.7
Shop Television Network Los Angeles, Calif.	NA	NA	100	1.0

Interactive Cable Shopping

Telaction Schaumburg, Ill.	Start-up on two cable systems, 40,000 homes, 10 suburban Chicago markets
Main Street Stamford, Conn.	Start-up on one cable system in Newton, Mass.
Cable Catalog Store Hatboro, Pa.	Start-up on one New Haven, Mich., cable system, 2,000 homes

Interactive Computer Shopping

Company	Sales (In Millions) 1987	Sales (In Millions) 1986	Number of Retailers	Number of Subscribers
The Electronic Mall Columbus, Ohio	NA	NA	90	400,000
Prodigy White Plains, N.Y.	June 1988 start-up in three markets: Atlanta, San Francisco and Hartford, Conn.			

Telephone and Computer Shopping

Company	Revenues* (In Millions) 1987	Revenues* (In Millions) 1986	Number of Members Phone	Number of Members Computer	Number of Suppliers
Comp-U-Card Stamford, Conn.	138.1	84.1	2.8 mil.	70,000	400

**Membership and service fees only*

Source: DSN research

ANNUAL REPORT K MART

K mart Committed to Discount and Specialty Stores

	1987	1986	% Change
Sales (In Millions)	$22,140	21,308	3.9%
Earnings (In Millions)	1,380	1,310	5.3
Stores	2,223	2,204	0.9

TROY, Mich. — K mart's plan to become a power retailer kicked into high gear in 1987 and the pace is only expected to accelerate in the years ahead.

The nation's largest discount retailer pressed forward with its computerization and marketing programs, store expansion and refurbishing schedule, and general upscaling in everything from store presentation to merchandising, all intended to better serve and expand its customer base and improve the bottom line.

The year 1987 marked some very substantial changes for the nation's top discount retailer. K mart sold its 76 Kresge and Jupiter stores to McCrory Corp. so it could focus all its attention on expanding its discount department stores and specialty retail business. And Joseph Antonini, K mart's president and chief executive officer, succeeded chairman Bernard Fauber, who retired.

Fauber remains with K mart as a member of the company's board of directors and as chairman of K mart's executive committee.

In 1987, K mart also announced plans to open a hypermarket, American Fare, in a joint venture with Bruno's of Birmingham, Ala., a 111-unit supermarket operator; brought on author/lifestyle and home entertaining guru Martha Stewart as the spokeswoman and consultant for the newly-formed home fashions division; and entered TV shopping by making non-K mart merchandise available to the Consumers Discount Network.

The pace hasn't slowed any since the close of 1987.

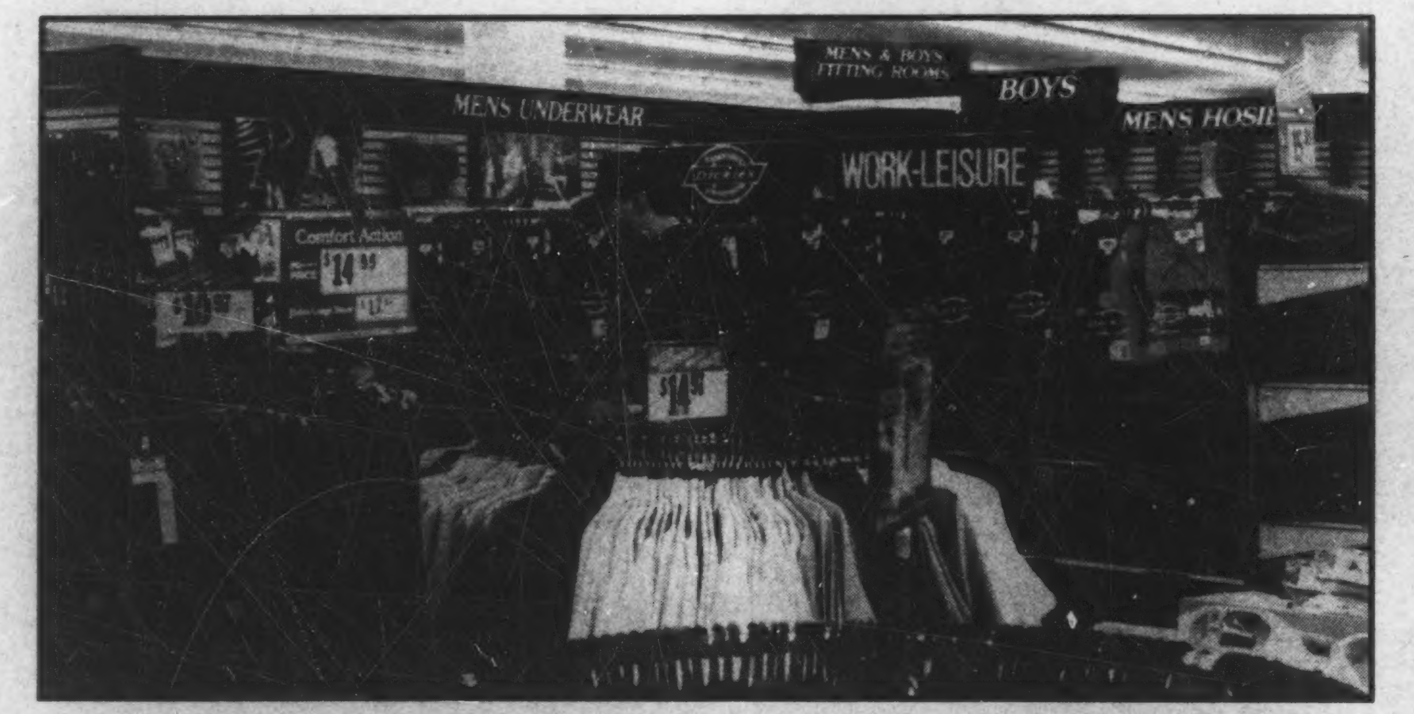
So far this year, K mart purchased a 51 percent ownership stake in Makro, the four-unit, Cincinnati-based warehouse club; completed plans for Office Square, an office products megastore due to open its first unit in Chicago this summer; and announced plans to start a sporting goods chain, Sports Giant.

Earlier this year K mart split its $3.4-billion specialty retailing division into three separate entities after Frederick Stevens, executive vice president, specialty retailing, suddenly resigned to head the Fred Meyer organization.

Replacing Stevens is Larry Parkin, formerly executive vice president for U.S. K mart stores, who is now executive vice president for warehouse and grocery operations, a new position. Parkin is overseeing the development of American Fare, scheduled to open in the Atlanta area late this year, Makro, Builders Square, Office Depot and Sports Giant.

K mart's other two divisions, Pay Less Drug Stores Northwest and Walden Books, report directly to Antonini.

The company's store expansion program is also in high gear.



Men's wear at K mart was upgraded to reflect today's most popular selections. In the mid-size stores, the department was moved next to sporting goods. (DSN photo)

K mart has announced that it will open 50 new K mart stores, more than in the previous two years combined, remodel 140 stores to the new, more upscale format, add another 175 Readers Markets, 60 to 80 more units in the Walden Books division, 25 new Builders Square's, and 30 Pay Less Drug Stores.

American Fare's first unit, in Atlanta, will be closely followed by four others by 1990. And four-unit Makro will be expanded rapidly, also. The warehouse club will have six units by the end of 1988 and 11 by year-end 1989.

Later this year, K mart plans to unite its second American Fare with a Builders Square on a 34-acre site in Charlotte, N.C.

Sales for 1987 rose 7.6 percent to $25.6 billion, $22.1 billion from K mart stores and $3.4 billion from its specialty retailing operations. Comparable store sales rose 4.1 percent for the year. Income from continuing operations before income taxes, rose 14 percent, to $1.17 billion, slower than the 36 percent rise recorded in 1986.

K mart opened 36 new discount stores in 1987 for a total of 2,223 units by year-end, and 258 stores in its specialty retailing division.

Sales within the company's specialty retailing division grew by $1 billion, in 1987, or 39 percent; operating income soared 103.6 percent, to $75 million.

K mart became listed on the Tokyo Stock Exchange for the first time last year, on December 8, 1987.

Many of the programs, policies, merchandising and operational programs conceived in 1987, which in some cases impacted only slightly on the company's bottom line, are intended to be the foundation for future expansion and profits.

(Continued on page 131)

ANNUAL REPORT WAL-MART

Wal-Mart Under Glass: Goal is No. 1 Discounter

BENTONVILLE, Ark. — The Wal-Mart juggernaut cracked 1,000 stores in 1987, but more interesting was the kind of store the Arkansas retailer chose to open.

The big news was the debut of its hypermarket concept, Hypermart USA, in Dallas at year-end. Long-term, the opening of the first of its SuperCenters shortly thereafter may be of even more significance.

Hypermart USA may have been the most ballyhooed store ever to open, attracting as it did a virtual army of reporters looking for the "next big thing" in retailing, but some observers feel that the concept is limited to a handful of major metropolitan areas and an even smaller handful of high-traffic secondary markets.

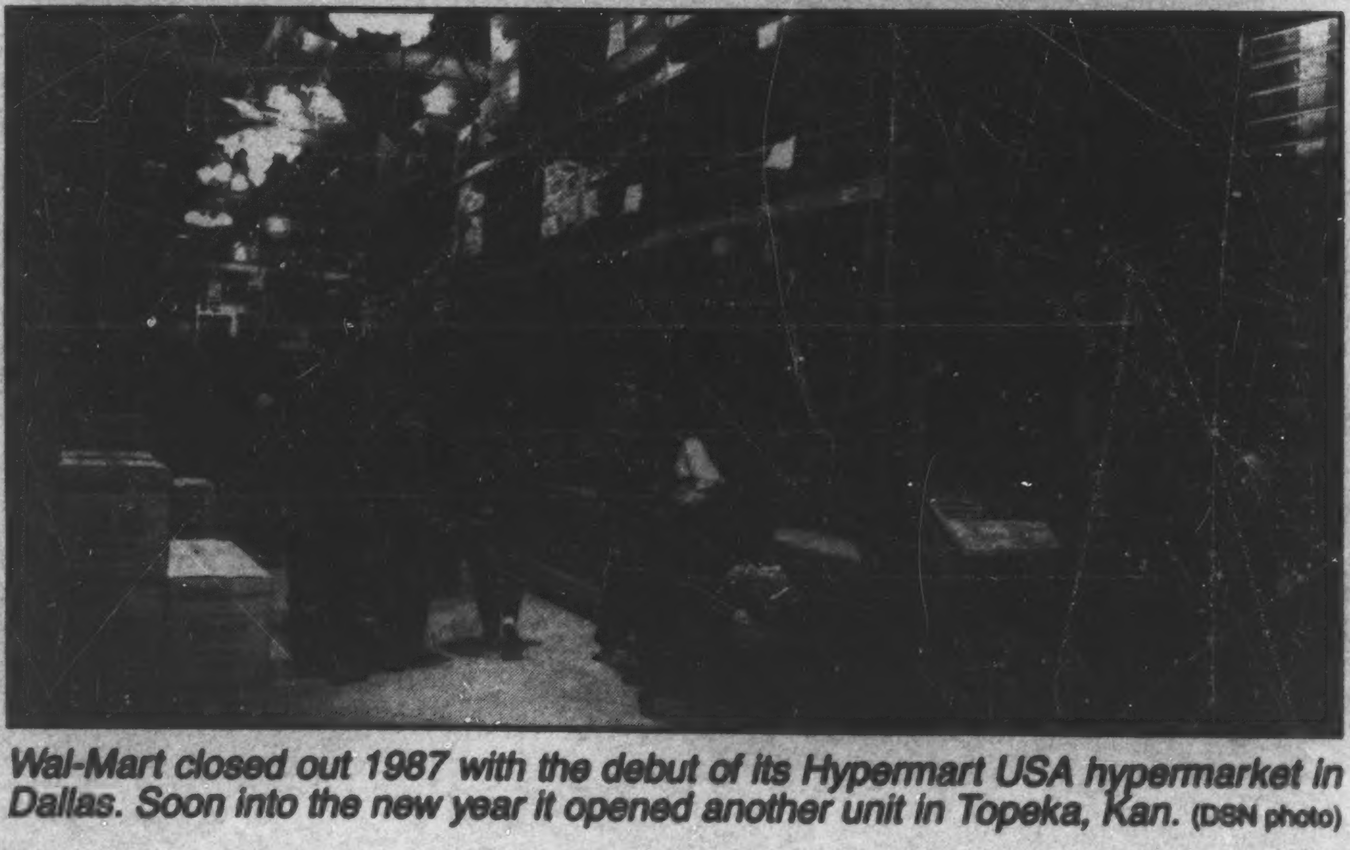
However, the smaller, down-size hypermarket SuperCenter, unveiled early this year, has the potential to very quickly turn Wal-Mart into the most dominant retailer in the world.

The company's strength has always been rural America, where a new Wal-Mart can normally panic local competition with its rock-bottom prices and deep selection. However, in small metro areas Wal-Mart becomes, according to *DSN*-sponsored research, "just another discount store." SuperCenter, essentially a scaled-down version of Hypermart USA, could address that weakness, giving the company enhanced access to areas in which it has met relatively little success.

Wal-Mart also made what many see as the first step in what will be a painful management transition when David Glass, formerly the company's president, was named chief executive officer early in 1988.

Many analysts had worried openly that the company had become so dependent upon the personality of founder and chairman Sam Walton that chaos would result when and if he retired or became unable to continue running Wal-Mart. Although the company denied that any competition was involved, vice chairman, chief financial officer Jack Shewmaker, who was a candidate as Walton's heir, resigned his positions at the same time. Shewmaker will remain with the company as a consultant.

	1987	1986	% Change
Sales (In Millions)	$13,248	$10,200	29.9%
Earnings (In Millions)	1,067	846	26.1
Stores	1,114	980	13.7



Wal-Mart closed out 1987 with the debut of its Hypermart USA hypermarket in Dallas. Soon into the new year it opened another unit in Topeka, Kan. (DSN photo)

Financially, the company had yet another of its trademark record-setting years. Sales rose 34 percent from just under $12 billion to $16 billion, and profits increased a dramatic 39 percent, from $450 million to $628 million. Discount store sales alone rose nearly 30 percent to $13.2 billion. And, at the company annual meeting last month, Glass predicted the corporation would exceed $20 billion in sales this year.

Wal-Mart has become such an efficient money machine, in fact, that Shewmaker felt compelled to note publicly that while the stores were, in fact, lowering prices, outsiders remained skeptical because profits kept going up. "The harder we try to do that [lower prices], the more efficient our people become—we can't seem to get caught up," he said.

Efficiency is almost a religion at Wal-Mart, which has upped its per-square-foot productivity from $145 in 1982 to $213 last year. It has installed state-of-the-art satellite communications technology and POS equipment as one money-saving measure, but the company credits its associates, who it says just get better and better.

The secret of his success, Sam Walton is fond of saying, is very simple: Offer the best merchandise at the best price in an agreeable environment and the world will beat a path to your door.

(Continued on page 133)

K mart Committed to Discount and Specialty Stores

K mart's hardware/home improvement mix was strengthened in many of its stores, particularly the home care centers which focus on DIY customers.

Not only do DIY'ers shop K mart's hardware departments and home care centers, so do customers who are just looking for a few items to finish a prcject. (DSN photo)

(Continued from page 127)

For example, K mart started centralizing its merchandising/buying functions last year; began live testing of its GTE Skystar satellite network, which will be linked chainwide by 1990 to all stores, regional headquarters, distribution centers and international headquarters.

The retail giant reorganized its hard lines buying into six divisions in 1987: Kitchen Korner; Bed and Bath; Home Care; Horticulture; Sporting Goods; and Auto Accessories. Apparel remains a separate division.

Apparel, which underwent some major upgrading in 1987, from the addition of fur coats and jackets and other fashionable merchandise, to the introduction of the apparel department placed in the infield of the newly configured Lima, Ohio, store, a midrange unit.

Private Label Apparel

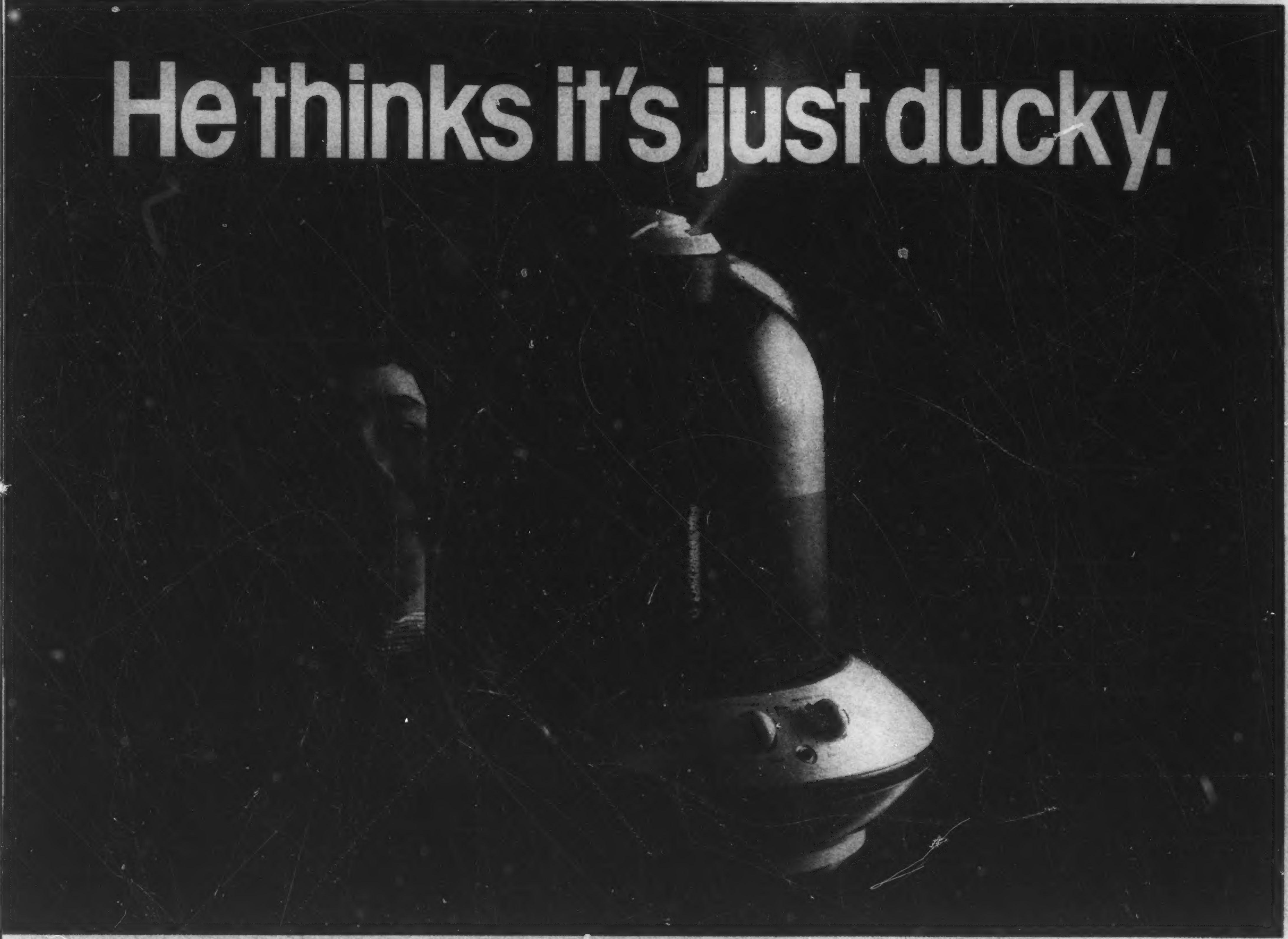
K mart also introduced two new private labels in the apparel department last year, The Body Company, a line of exercise/bodywear, and Weathered Blues, casual sportswear in the denim distressed looks. More fashionable merchandise was also introduced in the infants' and toddlers' department.

In keeping with K mart's goal to centrally merchandise its departments, the discounter added hosiery to its centrally merchandised apparel system earlier this year and will soon add bed and bath, and curtains and draperies to that system.

In hard goods, K mart will assign or centrally merchandise more than $5 billion of merchandise, compared to less than $2 billion in 1986. And by next year, all advertised and seasonal merchandise in hard lines will be centrally merchandised.

These changes will have a large impact at K mart. Antonini told a gathering of security analysts in New York in April that it realized a 33 percent sales increase and a 2 percent margin gain in the first eight weeks small appliances were added to the centralized merchandising system.

Next year, about 75 percent of all K mart's merchandise will be on the system.



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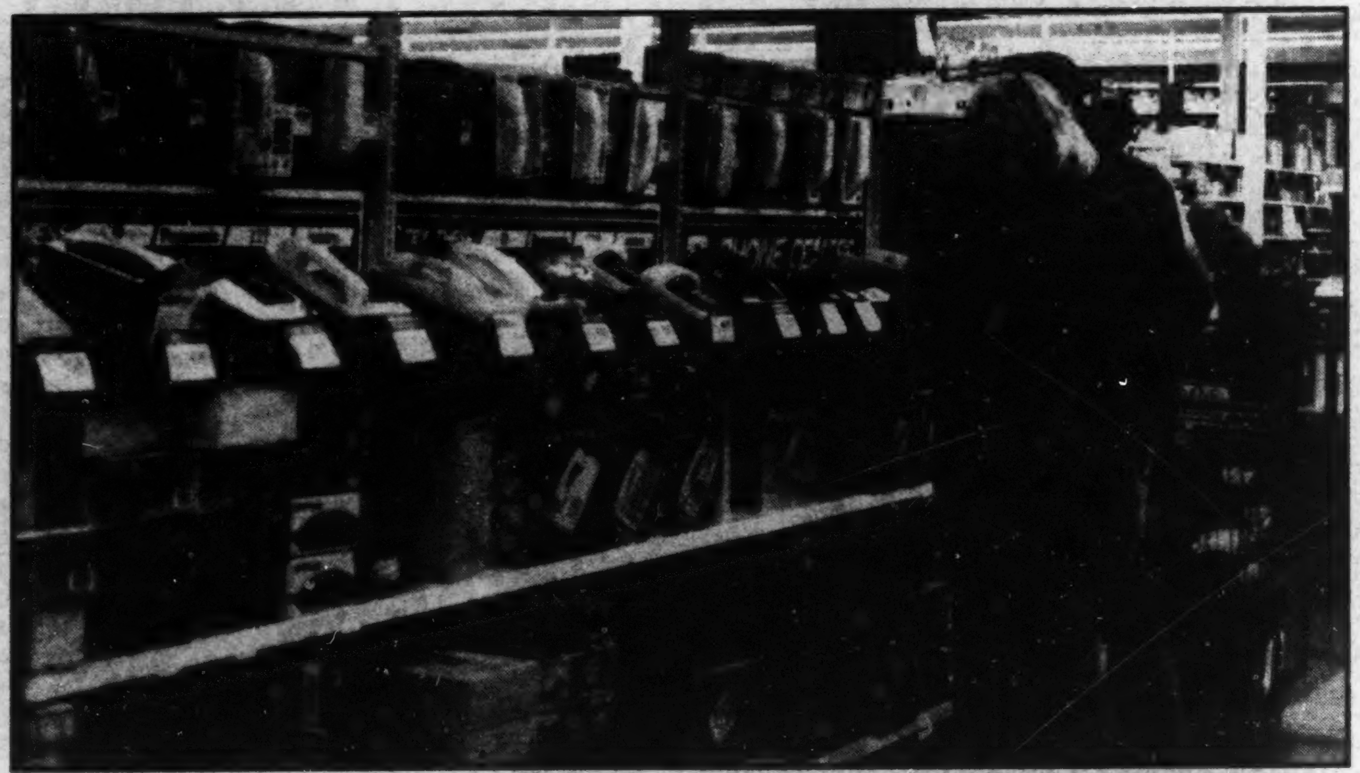
Wal-Mart Under Glass: Goal Is No. 1 Discounter

Wal-Mart employs such bulk display techniques as wire baskets and cut cases on flats, also found in Hypermart USA, to make shopping easier for its customers.



Wal-Mart will be expanding its consumer electronics merchandising as part of its drive to pass $20 billion in sales this year. In 1987, sales hit $13.2 billion. (DSN photos)

(Continued from page 127)

Toss in intensive attention to inventory management and almost fanatical devotion to cutting expenses ("We squeeze a nickel so tight you can hear the buffalo scream," one executive once said), and you have the basic outline of what is arguably the world's most successful business.

Wal-Mart's success is due in a large part to its attention to its employees. The company features liberal stock ownership and pension plans, and it promotes heavily from within. What is commonly perceived as a dead-end job at other retail stores is seen as a career opportunity at Wal-Mart. Last year, according to the company, 1,100 associates were promoted to management-level positions.

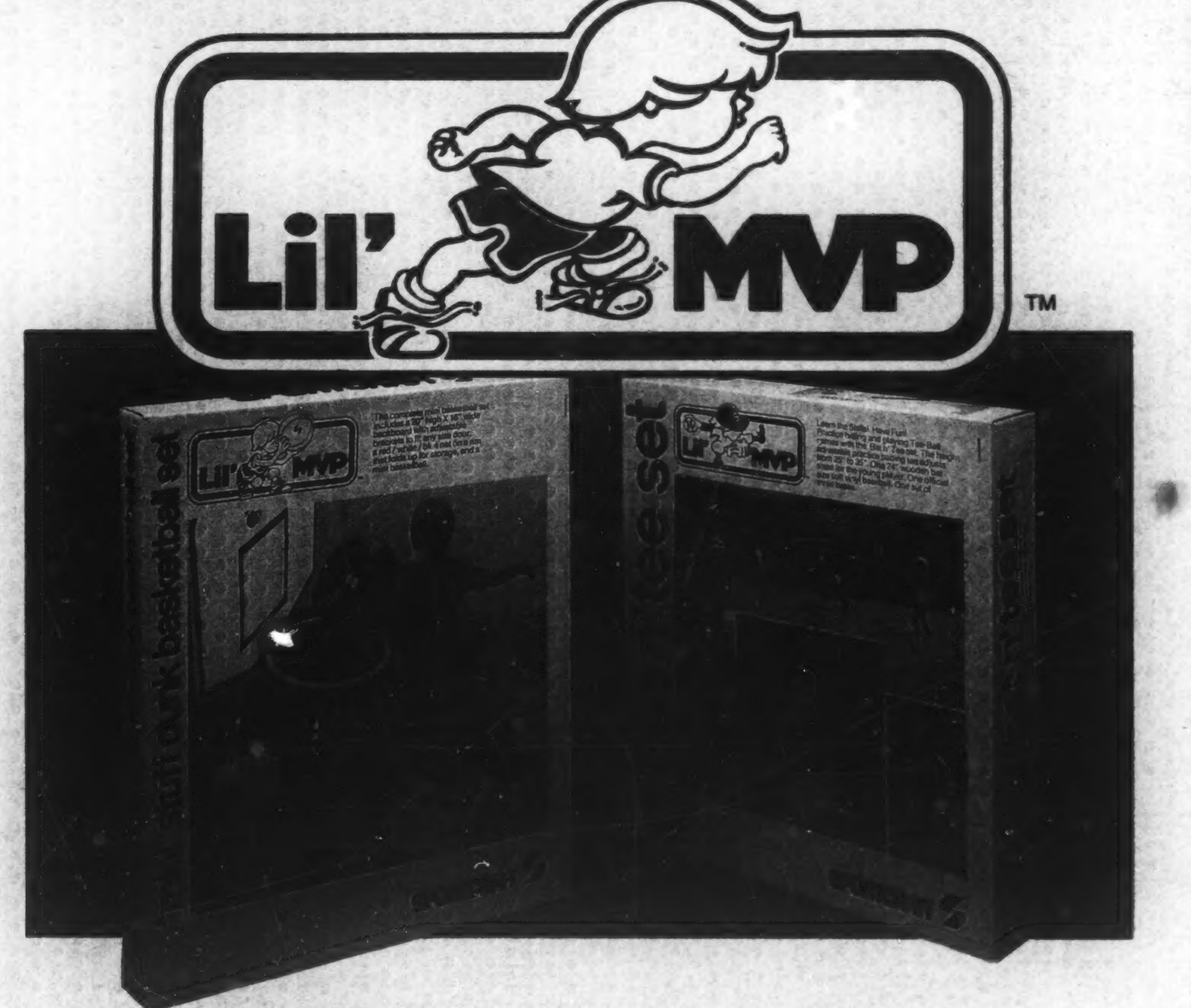
Growth Rate Slowed to 12%

Based on the current sales growth rate of the two chains, Wal-Mart is expected to surpass K mart as the world's largest discounter within five years. However, that could happen much more quickly, given the company's rapid growth over the past five years. Although the company's growth rate has slowed down to about 12 percent, those stores have consistently increased sales. The company has concentrated recently on expanding and retrofitting its older stores, which contributes to its impressive same store sales increases.

This year, Wal-Mart will reportedly test new product areas, including a 50-store test of a personal computer department which will feature Blue Chip and Tandy (Radio Shack) products. It will open roughly 125 new Wal-Mart stores, some in new markets, and will continue to expand its SuperCenters and Hypermart USA hypermarkets. Its Sam's Wholesale Club division, which also placed among the top 10 this year, will surpass the 100 store mark.

And, with Wal-Mart's new computer and telecommuncations networks running at full speed and its associates continuing their drive to become the most efficient employees in the United States, Wal-Mart will probably continue to outperform even the most optimistic projections of the financial industry.

There's an outstanding young talent in the growing sporting goods market.



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TARGET **ANNUAL REPORT**

Target Slows Growth, Yet Retains Pioneer Spirit

Target

	1987	1986	% Change
Sales (In Millions)	$5,306	$4,355	21.8%
Earnings (In Millions)	322.5	311.0	3.7
Stores	317	246	28.9

Source: DSN research

MINNEAPOLIS — Although Target has slowed its growth this year to allow for the digestion of 73 stores added during 1987, the third largest discounter is still forging into new markets and filling in others.

This month, 323-store Target will make its initial entry into the Pacific Northwest when it launches the first wave of stores planned for Oregon and Washington state. Although nine stores in the greater Seattle and Portland market are planned for July, Target intends to be operating a total of 35 stores in the two states by 1993.

The chain will find itself running against a strong, area competitor—Portland, Ore.-based Fred Meyer. While some Fred Meyer stores run close to the typical 100,000-square-foot Targets, many of Fred Meyer's new stores are almost twice the size of a Target and in many instances include a supermarket and pharmacy.

However, with Target's aggressive effort to guarantee low prices with the slogan "You'll Never Pay Less," the discounter will give Fred Meyer and other area retailers a run for their customers' dollars.

All told, Target intends to open 25 additional sites this year, with new units entering California, Michigan and New Mexico—also a new market.

The slowdown in growth should give Target a chance to absorb the 50 former Gemco stores it acquired in 1986 and reopened last year as Targets. The purchase enhanced Target's position in California, since it was able to make initial entries into the San Francisco area and San Joaquin Valley. Other new markets entered in 1987 included Detroit, Las Vegas and Reno, Nev.

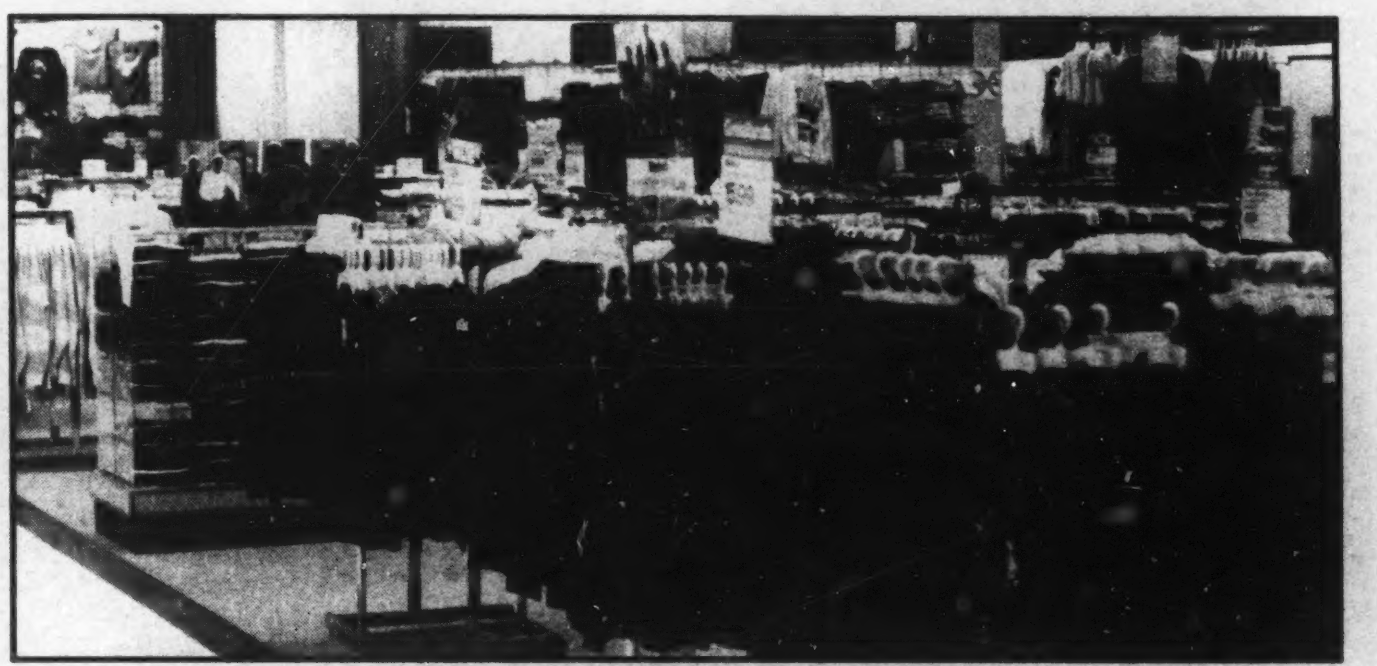
Although the aggressive push gave Target a large-scale entry into many cities, it also put a strain on in-store stock levels since the chain's retail space increased by 30 percent during the year. Looking to rectify this problem and increase profitability, Target parent Dayton Hudson said the discounter is integrating a merchandise flow distribution system.

Currently, one unspecified merchandise category is operating under the system at the Pueblo, Colo., distribution center, which serves 44 stores. The program provides daily replenishment to the stores in "quantities designed to fit on the selling floor," according to Dayton Hudson's most recent annual report.

While the merchandise flow system will be expanded this year to include

(Continued on page 136)

Last year Target reopened 50 former Gemco stores in California after extensive remodeling and remerchandising. Pictured is a Sacramento unit during set up.



Target entered Detroit, Las Vegas and Reno, Nev., for the first time in 1987. Pictured is new Detroit unit located near headquarters of arch rival K mart. (DSN photos)

PRICE CLUB **ANNUAL REPORT**

Price Club Maintains Slow Growth, Strong Results

SAN DIEGO — While the bulk of the membership warehouse club industry has been busy adding units in an effort to gain greater market share this year, Price Club has continued its conservative growth plan while still remaining the sales volume leader.

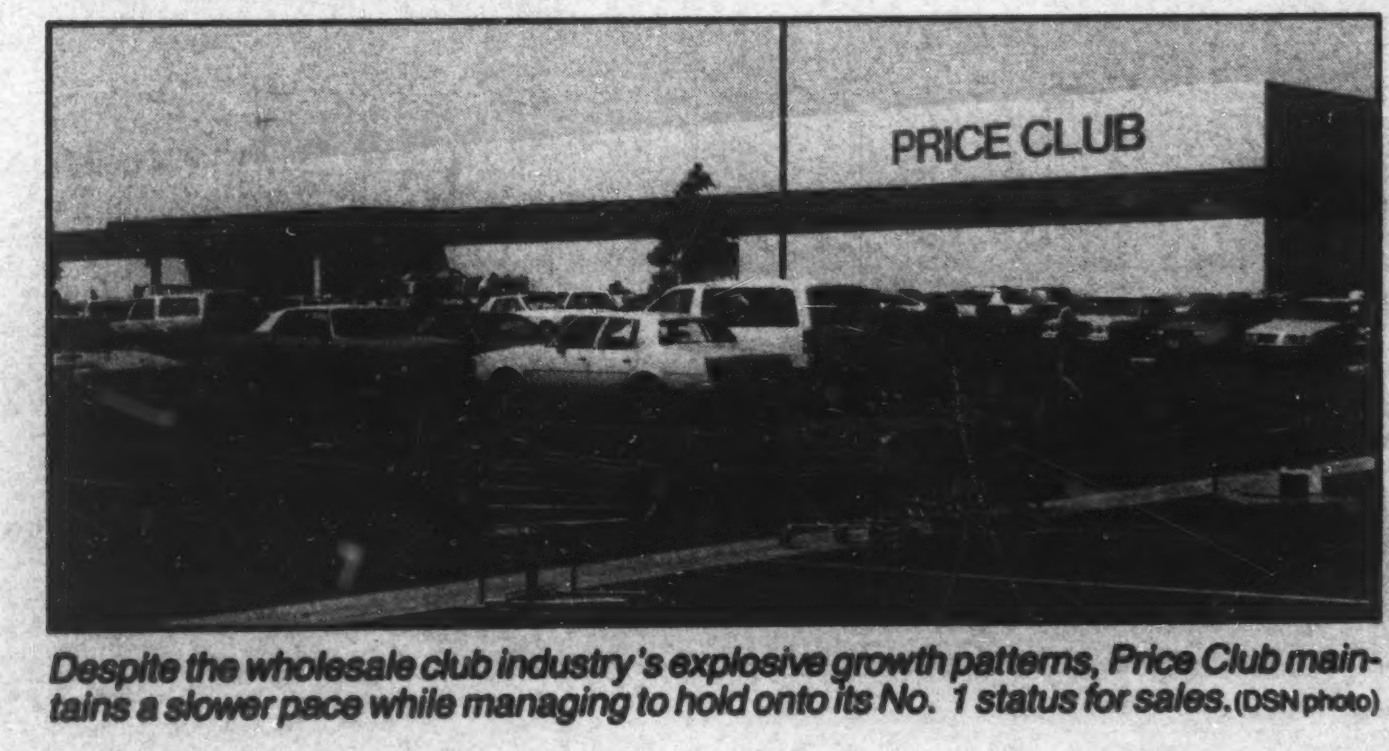
Currently with 38 warehouses in operation and 41 anticipated by its year-end in August, Price Club is slipping in terms of a total warehouse count in comparison with its younger competitors. Wal-Mart-owned Sam's Wholesale Club has out-numbered Price in unit count since 1985, and now Costco will surpass Price Club this year and PACE is not far behind.

However, Price Club's units still generate the largest sales volumes. While the chain's unit count during fiscal 1988 will grow by about 21 percent over the previous year, sales and earnings have exceeded this pace. In the most recent results, reflecting the first six months of the fiscal year, Price Club's net income grew 31.8 percent to $52 million while sales grew 24.3 percent to $2.13 billion. This could take the company over the $4 billion mark for the year.

Price Club

	1987	1986	% Change
Sales (In Millions)	$3,323	$2,667	24.6%
Earnings (In Millions)	139.7	116.0	20.4
Stores	37	34	8.8

Source: DSN research



Despite the wholesale club industry's explosive growth patterns, Price Club maintains a slower pace while managing to hold onto its No. 1 status for sales. (DSN photo)

Recognizing these results, *Fortune* magazine recently ranked Price Club as one of the 25 fast-growing companies in America. Placing ninth, Price Club registered a 39 percent sales gain between 1983 and 1987, the time frame used for the ranking by *Fortune*.

While the sales growth is partially attributable to comparable warehouse increases, new locations do indeed spur on the sales total. New locations this year for Price Club include one site already opened in White Marsh, Md., three scheduled for this summer and one planned for the fall. The summer openings consist of one in Glendale, Ariz.—the fifth in that state—one in Corona, Calif., and one in Hampton, Va., while the fall opening is planned for Babylon, N.Y.

Price Club Canada, the company's joint venture with Steinberg Inc., will add to its two-warehouse base with the opening this fall of a site in Toronto and one in Quebec.

Following company founder Sol Price's track record for business innovation and ingenuity, Price Club is not content to just keep building on its present operation. Instead, it announced this year the creation of Price Club Industries to explore new entrepreneurial concepts and oversee manufacturing and specialty operations.

The division's duties include running Price Club's optical centers, gas stations, photo processing, ground meat packaging, automotive services and pharmacies. The success of the optical centers—started last year—has already prompted Price Club to include them in 12 locations, and the chain is looking to eventually roll them out to all warehouses, according to Dan Carter, chief financial officer. Price Club is also going ahead with plans to open a lens grinding facility to service the optical centers.

While the company's pharmacy test appears at a standstill with just one location, Price Club is now prepared to go beyond its one gas station with the opening of a second at the Scottsdale, Ariz., club this year.

Although no new ventures have been announced since the company's annual meeting in January, company president Robert Price said at the time that the new division was pursuing other business activities, including several manufacturing avenues.

Other changes taking place at Price Club this year include enhancements for the chain's members. Business members, who have belonged to the club at least two years, can now purchase two additional membership cards for $25 each, thus allowing for a total of six cards on one membership.

Business membership was also expanded, allowing qualifying professionals and contractors to obtain three cards. Previously, only a group practice was eligible to obtain cards, however with the expanded qualifications, these businesses can obtain individual memberships as a small business.

Additionally, Price Club made purchase time quicker for resellers in Arizona, by assigning them a tax control number and thereby avoiding the need for lengthy and time-consuming form filling at the register. Although state regulations are still closely followed, information on file and one short form now replaces a much longer one.

Target Slows Growth, Yet Retains Pioneer Spirit

Apparel is still Target's calling card. The upscale discounter is noted for being a shrewd apparel merchant and one of the most fashion-forward discount stores.

Despite its upscale image, Target is surprisingly price-conscious, particularly with traffic-building health and beauty aids products. (DSN photos)

(Continued from page 134)

two other product categories, Target will also open new DCs in Sacramento, Calif., and Indianapolis.

The chain also expects its in-store scanning implementation to be companywide by the end of this year. Last year, over 100 stores were put on the system, designed to save customers time, while providing Target with more accurate inventory data.

By concentrating on improved inventory management, merchandise flow and a slowed growth mode, Target—and Dayton Hudson—expect to realize higher earnings this year. According to Dayton Hudson, start-up costs for the converted Gemco locations cost Target some $42.9 million, and pulled down a potential 17 percent operating profit increase to only a 4 percent gain at $323 million in 1987.

Target continues to be Dayton Hudson's retailing leader, accounting for over half of the company's total sales generated in the first quarter.

However, year-end sales produced by Target's 317 stores were up 22 percent and amounted to $5.31 billion, while comparable sales rose 4 percent.

This year, first quarter comparable sales gained just 3 percent at Target—a figure Dayton Hudson said was expected and does not necessarily dictate the growth pattern for the remainder of the year.

Chainwide, sales increased 28 percent and hit $1.35 billion for the quarter ended April 30, 1988.

Target continues to be Dayton Hudson's retailing leader, accounting for over half of the company's total sales generated in the first quarter. Similar results were evident in the most recent year-end, as Dayton Hudson acknowledged that Target's portion of the total operating profit has grown from 35 percent to 53 percent during the past five years.

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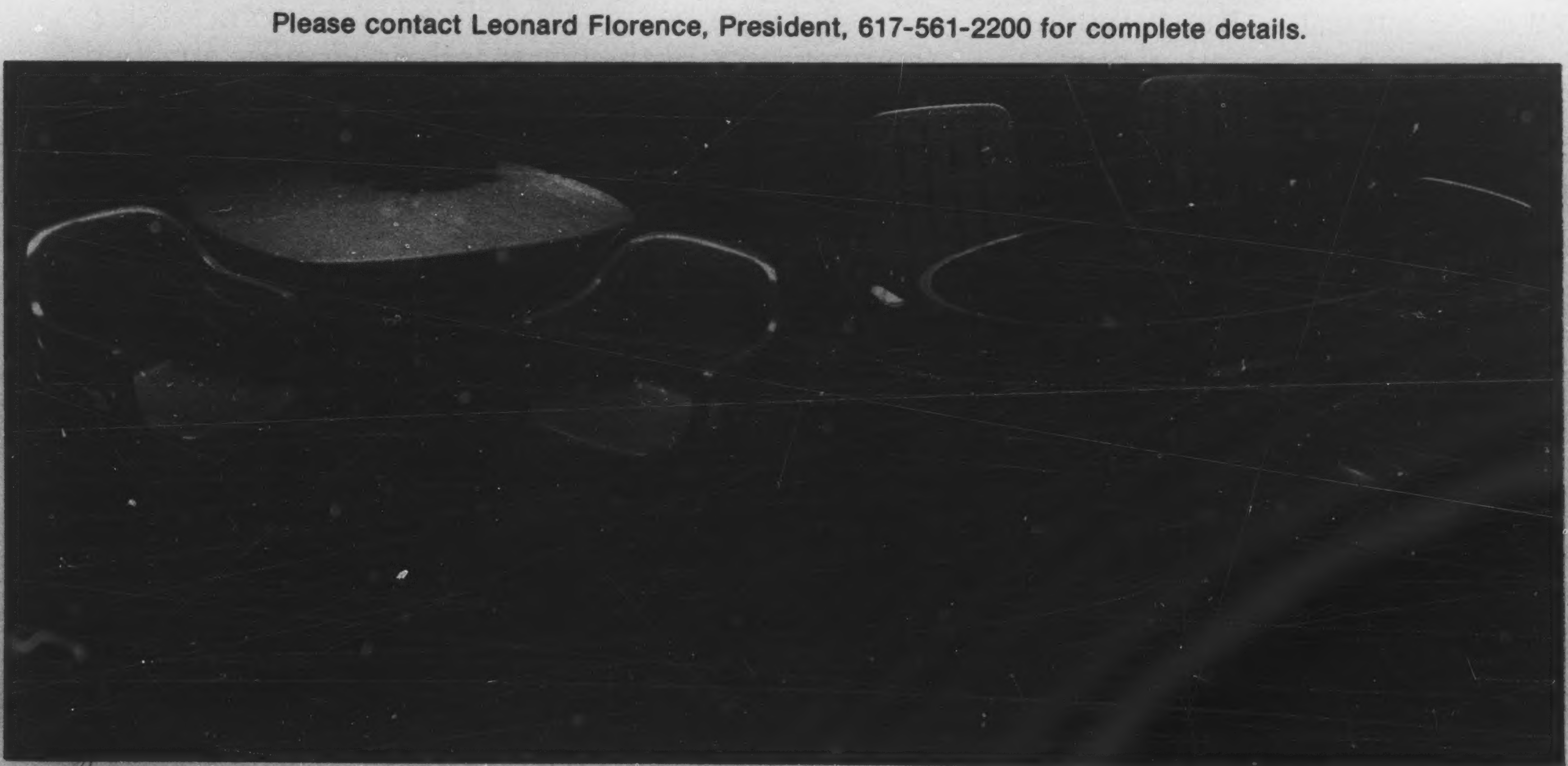


ANNUAL REPORT ZAYRE

Zayre Launches 7-Step Plan to Get Back on Track

FRAMINGHAM, Mass. — 1987 was a tough year for Zayre Stores, the discount store arm of $6 billion retailer Zayre Corp.

The year saw a $40 million write-down, high-level executive resignations, takeover rumors and, ultimately, a $13.9 million net loss. Overall, the company made a respectable $143.3 million profit, but much of that profit was due to the sale last summer of a minority interest in its highly profitable TJX division.

Most of the action took place late last summer. As sales lagged, Zayre Corp. chairman Maurice Segall took dramatic action, slashing prices on slow-moving merchandise and writing off millions of dollars worth of obsolete goods. This announcement came on the heels of the resignation of Zayre Stores chairman Malcolm Sherman, after which Segall named himself acting chairman of the division. (Home-Club president Herbert Zarkin, a lifelong Zayre employee, was recently named chairman of Zayre Stores.) Almost simultaneously, the $89 million sale of TJX stock was announced, offsetting the eventual second quarter loss that resulted, in part, from the write-downs.

At the time, Segall noted that Zayre Stores had to become more competitive on "certain brand name items," and prices were slashed on 300 hard goods products, mostly staple items like deodorant and toothpaste. He also announced the impending introduction of "several new and exciting (but unspecified) marketing programs."

Segall was evidently referring to the debut of Zayre's frequent shopper bonus program, Frequent Z, and the introduction of brand name, fashion clothing to the company's languishing apparel departments, among others. Less than a year later, Frequent Z has already been discontinued after meeting with consumer apathy and fashion apparel has, at best, trickled into Zayre apparel racks.

In the company's annual report, Segall announced a seven-step program to return the discount store division to profitability. The steps include a major review of merchandise assortments (due for completion this month), better margin planning, upgraded employee training, better targeting of black and Hispanic shoppers, improved distribution (with an 800,000-square-foot DC in Plant City, Fla., expected to open this month) and upgraded open-to-buy, POS and unit control systems.

Additionally, the company seems to have committed itself to chopping prices on traffic-building staples like cleaning products and paper goods. Cut-case merchandising of these products has been stepped up dramatically in many stores, particularly, it seems, in inner-city and ethnic areas. This fits in with Zayre's apparent strategy of targeting the lower end of the market as competitors upscale to appeal to the more affluent consumer.

Zayre is virtually the last major discounter to have significant operations

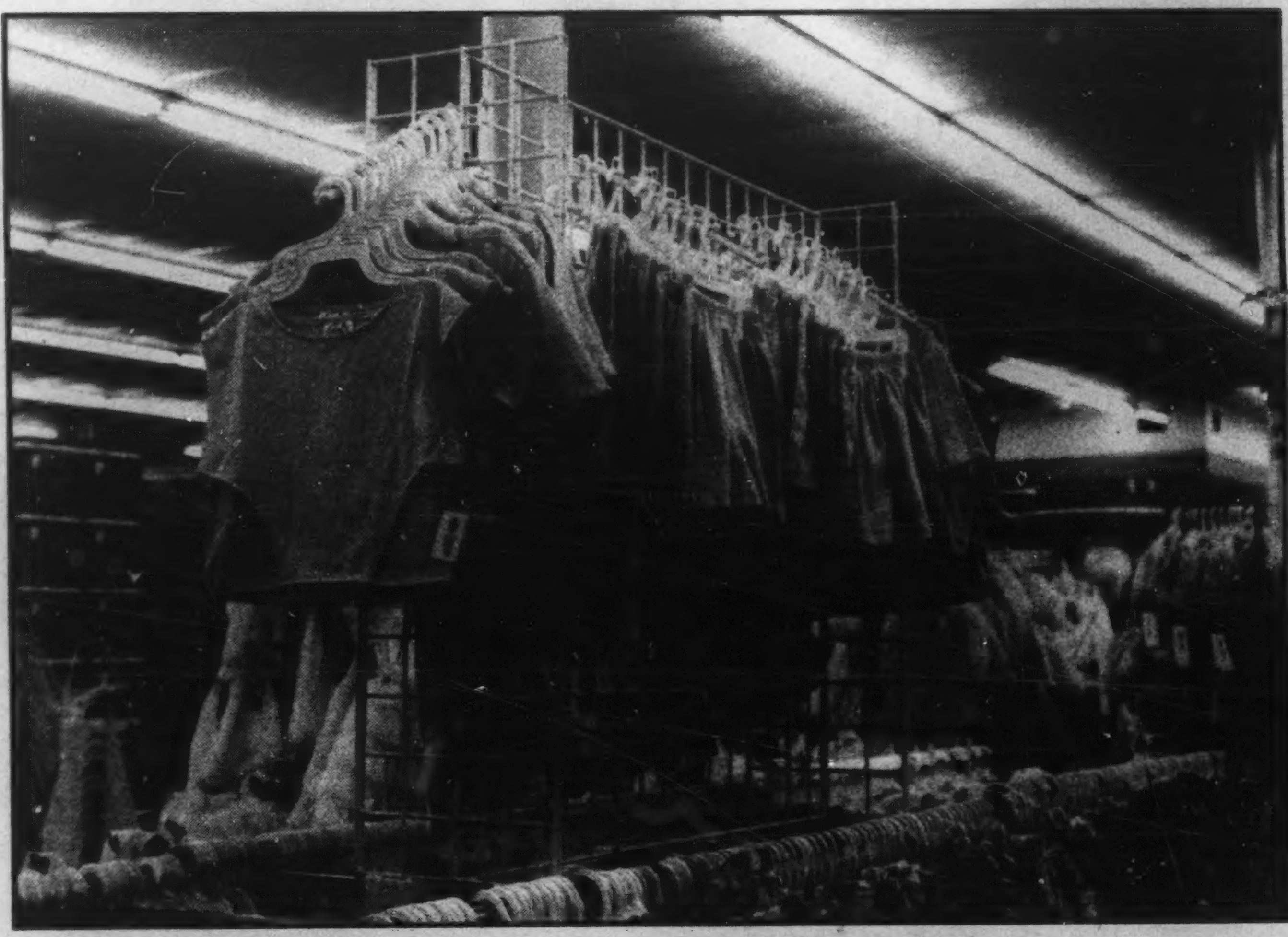
(Continued on page 141)

Zayre

	1987	1986	% Change
Sales* (In Millions)	$3,290	$3,046	8%
Earnings (In Millions)	(13.9)	129.9	—
Stores*	382	362	5.5

**Includes Zayre discount stores only*

Source: DSN research



Zayre has attempted to upscale its apparel presentation with name brands and new fixtures aimed at establishing a more fashion-forward image. (DSN photo)

ANNUAL REPORT TOYS "R" US

Toys 'R' Us Plots Expansion at Home and Abroad

ROCHELLE PARK, N.J. — Before the 1988 annual meeting of Toys "R" Us started in New York last month, a small, redheaded boy walked up to chairman Charles Lazarus and told him: "My grandma and grandfather bought me stock in your company.

"Is it going to make any money this year?" the lad asked.

Lazarus' answer was inaudible. But all available signs point to another profitable year ahead as the leading toy retailer continues to grind out market share gains.

In 1987, TRU logged a 21.7 percent increase in pre-tax profits on a 28.3 percent gain in sales. Before income tax, profits grew to $345.9 million from $284.2 million in 1986. After-tax profits rose 34 percent to $203.9 million, equal to $1.56 a share, from $152.2 million and $1.17 a share in 1986. Since its inception in 1978, TRU has enjoyed a compounded profits growth of almost 31 percent a year.

Same Store Sales Jump 10.1%

Sales rose in 1987 to $3.14 billion from $2.44 billion in 1986. More important, same store sales jumped 10.1 percent, a gain from 8.5 percent the previous year.

Profits in the year ended Jan. 31, 1988 equaled 6.5 percent of sales, compared to 3.93 percent at vaunted Wal-Mart.

Another favorable sign for TRU profits: its effective tax rate drops to 37.5 percent for the current rate from 41 percent in 1987.

Profits in 1988 will rise 35 percent to $2.15 a share and in 1989 rise again to $2.60 a share, predicted Daniel E. Barry, retail analyst for Kidder Peabody, in a May 27 report.

"Toys "R" Us is one of only a handful of retailers whose strong earnings will be virtually assured in the difficult retail environment we anticipate over the next two years," Barry wrote. "Sales and earnings should be boosted more than investors expect by a developing boom in video games.

"The added impetus from video games should enable Toys "R" Us to report the biggest sales and earnings gain of any billion-dollar retailer this year," Barry predicted.

"With the recent change in management of Child World [the nation's No. 2 toy retailer], its highly aggressive pricing policy of the past two years is expected to be relaxed," Barry said, "allowing Toys to generate stronger same store sales gains in markets where they both compete."

Toys "R" Us

	1987	1986	% Change
Sales (In Millions)	$3,137	$2,445	28.3%
Earnings (In Millions)	345.9	284.2	21.7
Stores	424	338	25.4

Source: DSN research

Adding Two Points of Market Share

TRU is adding at least two points of market share a year to its commanding 20 percent, said Robert J. Schweich, managing director for Wertheim Schroder, a New York investment house that underwrote a $100 million debenture issue for Toys "R" Us in January 1987.

Within 10 to 12 years, TRU will control as much as half the retail toy market, Schweich predicted.

At its annual meeting June 7, stockholders approved an increase in the number of shares outstanding to 350 million from 200 million. The increase suggests the possibility of a three-for-two stock split, Schweich said.

Video games "continue to be a real bonanza," Schweich noted in a May 8 report. "The company is using its financial strength to secure electronic merchandise, which generally is in short supply," he wrote.

TRU will continue to be competitive on prices, Schweich said, but less so because of diminished pressure from Child World.

"Toys was successful at aggressive pricing, where Child World fell down," the analyst said.

Chainwide scanning, which TRU installed last year at a cost of $35 million, was an important factor in TRU's 18 percent gain during the prime Christmas season. Thanks to scanning, "Toys gets customers in and out faster than Child World," Schweich said.

TRU now is adding scanning to its Kids "R" Us children's apparel chain.

Kids apparel accounted for about $250 million in 1987 sales, Schweich estimated, forecasting a gain to $400 million for 1988. Kidder Peabody's Barry estimated that the Kids division contributed 1 cent a share to 1987 earnings and will account for 4 cents a share in 1988.

Lazarus said he was pleased with the large number of toys introduced at the February Toy Show in New York.

"We benefit from toy diversity because we are able to show it all," he remarked.

With an average store size of 46,000 square feet, TRU stocks 18,000 sku's in its system.

For 1988, TRU has set another major expansion course, entering two new markets, Kansas City, Mo., and Western Canada, Lazarus said. In 1989, TRU will enter France, another foreign market in addition to Great Britain, West Germany, Canada, Hong Kong and Singapore.

It plans to add 15 foreign stores to the 37 it started the year with. Domestically, it will add 45 stores to the 313 at the start of its fiscal year.

35 Kids Stores to Open in '88

In addition to 60 Toys stores, TRU plans to open 35 more Kids apparel stores, including 10 units in a new market, Southern California, on top of the current 72.

During 1987, TRU added 42 more U.S. Toys stores and 13 international, entering three new markets: Pittsburgh, Phoenix and West Germany, and 31 Kids apparel stores.

In his letter to stockholders in the 1987 annual report, Lazarus said the company plans this year to improve productivity by starting labor scheduling in its distribution centers, increasing the use of computers and materials handling equipment in distribution centers, start electronic data interchange (EDI) with suppliers and electronically transmit credit card data.

"These cost and tax savings [from the 1986 tax reform bill] strengthen our position as the low-cost retailer in the toy business," Lazarus wrote.

In terms of management, technology and real estate, TRU remains the dominant factor in toy retailing, said Schweich.

Zayre Launches 7-Step Plan to Get Back on Track

SOME POINTERS ON JOINING FREQUENT Z

In response to lagging sales, Zayre instituted in mid-1987 a Frequent Z bonus program, since discontinued, to reward its frequent shoppers.

9.99 13.99 4.99
Touch of Velvet
100% DuPont Antron Rugs

As part of its attempt to revitalize its stores, Zayre has reaccentuated its domestics departments by deepening and upscaling its merchandise. (DSN photos)

(Continued from page 139)

in inner-city neighborhoods, which have been almost totally abandoned by discounters. Zayre's thinking, evidently, is that these consumers are as much in need of basic discounter products as are their wealthier counterparts in the suburbs, and given the traffic in many of the company's urban locations, it seems to have analyzed the situation well.

However, the company has not, as yet, executed. Inner-city consumers are extremely brand conscious. Zayre has attempted to address this by adding, for example, Nike and other name brand sneakers and Spalding and other fashion sportswear. However, in most cases, the products are "salted," with little depth.

If the fashion-forward trend is continued, however, it could be very successful. Zayre operates T.J. Maxx, the ultra-successful off-price fashion apparel chain, so the fashion know-how is evidently available within the organization.

Cash Flow Shortage

There seems to be a shortage of cash at the discount level, however. According to one store manager, a large part of Zayre's store remodeling program has been suspended due to that shortage, and many Zayre stores are in a state of disrepair. While the company seems to be positioning itself to become the "no-frills" leader of the industry, some remodeling is vital.

Only time will tell if the extensive overhaul the company has hinted at will be enough to keep Zayre competitive. Last year, its same store sales rose only 1.5 percent and were particularly lackluster during the crucial Christmas selling season, Segall noted. So far this year, no noticeable improvements have been observed, and Moody's recently downgraded the company's debt rating, citing expectations for very slow improvement of the company's financial position.

However, the elements blamed by Moody's (poor distribution and merchandising and unsuccessful promotion strategies) are the very elements Zayre has identified for crash improvements, so it appears that the industry's fourth largest retailer may be back on track.

THE SNOW BLA
COMES WITH

Think about how many more winter wipers you'd sell if a free Road Freeze Alert was included in every Roberk Snow Blade package.

ABOVE 32°F

32°F AND BELOW

Smart premium, smart promotion. The Freeze Sensor is no gimmick. It's the kind of winter safety item consumers warm up to.

The sensor has the brains to know when road conditions are at their worst, and it warns your customer to "go slow when I glow." The sensor calls on liquid crystal technology to change from a plain opaque surface to a brightly illuminated warning symbol that says "Watch for Ice" whenever the outside air approaches the dangerous freeze/melt temperature of 32°F.

The self-adhesive sensor tucks into the corner of an outside mirror, where it's out of the way, yet clearly visible to the driver.

A unique Roberk offer. No one else offers the consumer this extra bonus; one that is bound to spell extra impulse sales for you this winter.

It's an even better offer when combined with the known quality of the Roberk Snow Blade—designed for easy attachment, perfect fit; and engineered for a consistently clean, clear wipe in severe winter driving conditions.

Ice shedding boot blocks snow from jamming the rust-proof, impact-resistant blade.

For all the details on the Roberk Snow Blade and Freezer Sensor combination offer, call 1-800-ROBERK-1. And ask about our new high-impact merchandisers to promote the snow blade that comes with a brain!

ROBERK Parker Automotive

ANNUAL REPORT SERVICE MERCHANDISE

Service Merchandise to Build on Turnaround

NASHVILLE, Tenn. — Service Merchandise isn't letting its turnaround go to its head.

Instead, the $2.7 billion retailer—the nation's leading cataloger—is focusing on strengthening its basic business by improving the productivity of its existing showrooms, even foregoing the rapid expansion that marked its growth in the past to open only a handful of stores this year.

The concentration on improving its current operations is expected to help Service boost sales this year to about $2.85 billion and break $3 billion in 1989, with substantial profits in both years.

That's not a bad payoff from the cataloger's turnaround, which last year saw sales hit $2.7 billion, up 7.6 percent from $2.5 billion, while a net income of $30.9 million was a major improvement from the $46.9 million in red ink in the previous year.

More importantly, Service was able to support that sales jump through a finely tuned merchandising program that resulted in only a 2.7 percent increase in inventories, which went to $647.4 million from $640.3 million in the previous year. Service's owned inventory actual dropped by 61.3 percent to $269 million from $330.3 million as the cataloger was able to use more manufacturer monies to fund its inventory investment.

The cataloger used some of the $192 million in additional sales to reduce by $101 million its notes payable, current maturities of its long-term debt, the long-term debt itself and capitalized lease obligations.

Another immediate payoff from the turnaround was a higher credit rating for the cataloger and bank extension of its extensive revolving credit lines.

Moody's, for example, raised the rating of Service's senior subordinate notes to Ba3, noting "expectations of improving returns in coming years because of the company's focus on overhead reductions and a higher-margin merchandise mix [while] debt levels are also expected to decline."

The debt rating service said Service would increase "the percentage of higher margin jewelry and electronics in its mix" and "is reducing its capital spending to within its projected cash flows, especially on new units."

Service's lenders extended the final payment date on its long-term $157 million credit for a year to March 1990, while its $130 million revolving credit, used for seasonal buying, was renewed for a year. The bank also limited Service's capital expenditures to $40 million a year during the terms of the agreements.

Fueling the cataloger's markedly improved financial performance last year was the best of all retailing worlds: a combination of higher gross margins and a sharp cut in selling, general and administrative expenses as a percent of sales. Gross margins went to 22.9 percent, a 6 percent increase from 21.6 percent in the prior year, while SG&A were cut 9.9 percent to 16.4 percent from 18.2 percent.

As for Service's back-to-the-basics program, its endeavors included:

- Launching a customer courtesy program called, "You can do Magic," with "MAGIC" an acronym for "Make a Goal, Impress Customers."

The cataloger used a video training program, along with publications and a recognition/incentive reward system to encourage employees to perform "Magic."

- Using the latest retailing technology to speed up approval of checks.

Electronic authorization of checks are now handled at two regional processing centers which are on-line to the cataloger's point-of-sale terminals.

- Strengthening the cataloger's year-old credit card program which had 362,000 customers and accounted for 4 percent of sales.

An instant credit feature was added to the program, while new customers could apply through the company's electronic POS network and a new approval system cut processing from days to minutes.

- Targeting customers who regularly shop Service Merchandise to insure that they receive the company's annual 490-page catalog, 130-page spring book and fliers.

The new customer tracking system includes entering a shopper's phone number to confirm the mailing address, along with the amount of the transaction. The information is electronically processed, including correcting and updating the phone number and mailing address, to develop the mailing list of those most active.

The company distributed over 257 million catalogs and fliers through the mail and another 210 million via newspaper inserts. Advertising costs of $74.3 million last year were down 20.9 percent from $93.9 million due to Service's improved ability to identify its best customers.

- Improving its mail-order service, a move that resulted in a 43 percent increase in direct-mail sales.

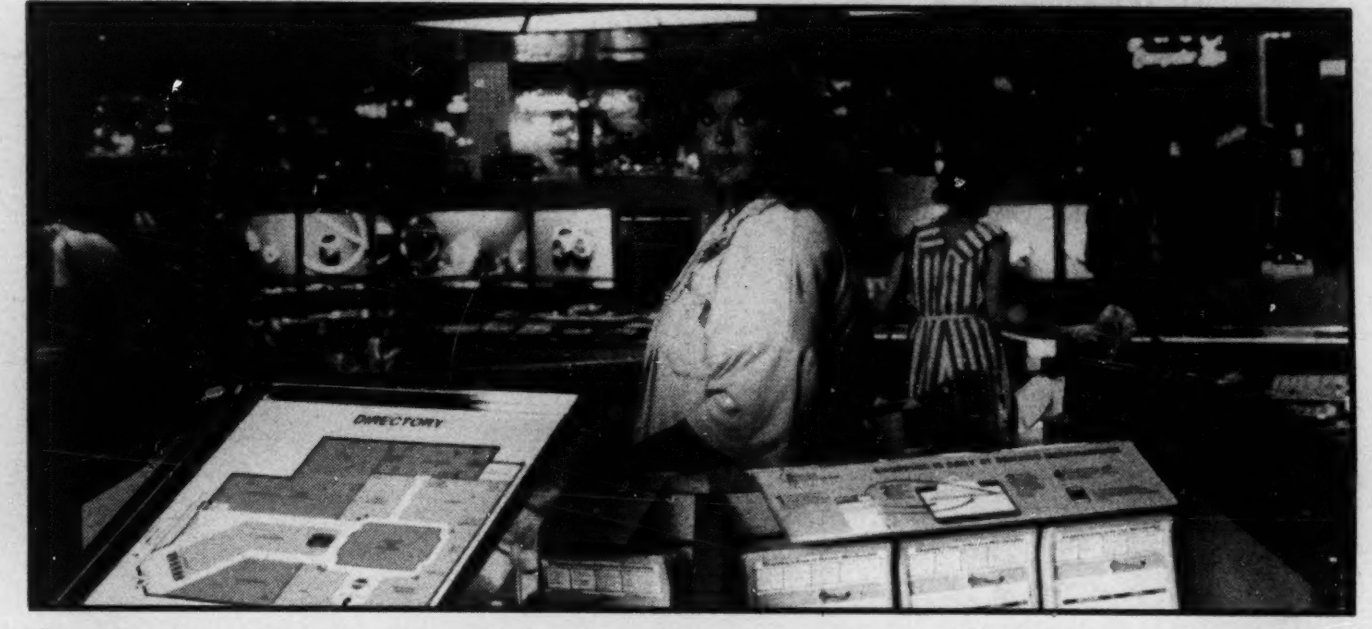
Orders that can not be filled in Service's central mail-order facility are now electronically sent to the showroom, nearest the customer, that stocks the merchandise. The item is then mailed from that location to the customer.

(Continued on page 144)

Service Merchandise

	1987	1986	% Change
Sales (In Millions)	$ 2,719	$ 2,527	7.6%
Earnings* (In Millions)	44.4	29.1	—
Stores	309	300	3.0

Source: DSN research



Service has launched a customer courtesy program called 'You can do Magic,' with 'MAGIC' an acronym for 'Make a Goal, Impress Customers.' (DSN photo)

ANNUAL REPORT SAM'S WHOLESALE CLUB

Sam's Poised to Lead Warehouse Club Industry

BENTONVILLE, Ark. — Sam's Wholesale Club this year is poised to achieve a goal that has so far eluded its parent, Wal-Mart—become the top company in a growing industry.

While Wal-Mart continues to chase K mart for the top spot in the discount store field, five-year-old Sam's is likely to become the leading membership warehouse in terms of sales this year, to go along with its position as the top operator of stores.

Sam's is expected to easily pass the $4 billion sales mark this year and inch ahead of The Price Club.

To reach and pass the $4 billion volume level would require Sam's to boost its sales by just under 50 percent. While that figure seems high, it's less than the 61.6 percent jump the membership warehouse achieved last year.

In 1987, Sam's sales hit $2.7 billion, $1.03 billion higher than the $1.7 billion volume reached in 1986.

The membership warehouse should be able to add over $1 billion to its volume from its expansion plans and the maturing of wholesale clubs unveiled and added last year. Sam's expects to open 18 clubs this year, about half the 35 unveiled in 1987, but that figure includes 17 stores that resulted from the acquisition of Super Saver.

Sam's has impacted Wal-Mart in a number of ways, not the least important of which is being a major driving force behind its parent company's impressive sales growth.

Wal-Mart's total sales last year went up 34 percent, but the discount store arm's volume increased only 29.5 percent; Sam's much higher 61.6 percent volume leap helped push the company to its more impressive volume jump.

Sam's itself has been accounting for a larger portion of the parent company's sales. Sam's share went to just under 17 percent last year from 14.1 percent in 1986 and 9.2 percent in 1985.

On another front, Sam's merchandising and marketing helped to sire Wal-Mart's move into a new and potentially explosive retailing format: hypermarkets. The Hypermart USAs are, in effect, wholesale club-type stores for consumers, with the core aspects of its marketing—warehouse fixtures and narrow and deep merchandising-employed by Sam's.

Sam's growing importance within the Wal-Mart organization is also evident from the parent company's executive reshuffling. A.L. Johnson was named as one of Wal-Mart's three vice chairman, specifically responsible for Sam's, Hypermart USA and the company's other specialty divisions, Sam's immediate head, Nick White, was designated a Wal-Mart executive vice president and Robert K. Voss, was named a company senior vp and Sam's general merchandise manager.

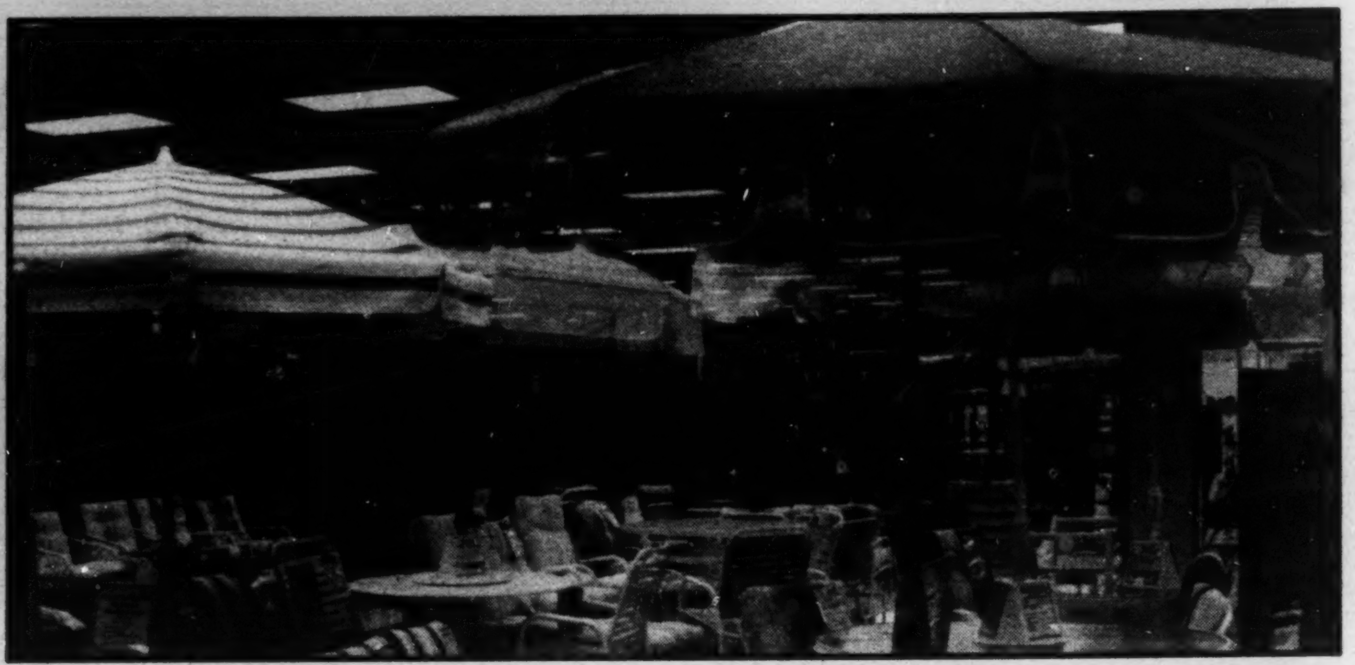
Sam's Wholesale Club

	1987	1986	% Change
Sales (In Millions)	$2,711	$1,678	61.6%
Earnings (In Millions)	NA	NA	—
Stores	84	49	71.4

NA—not available *Source: DSN research*

Sam's has been accounting for a larger portion of the parent's sales, building from a 9.2% share in 1985, to 14.1% the next year and 17% last year. (DSN photo)

Service Merchandise last year boosted gross margins by 6% to 22.9% and made a sharp 9.9% cut in SG&A expenses as a percentage of sales to 16.4%.



There could be net gain of up to eight showrooms in 1988, with four new units already set, the renovation of two others and another pair's replacement.(DSN photos)

Service's Growth Slowed; Focus on Rebound Effort

(Continued from page 143)

While Service has keyed in on its current showrooms, it has scaled down its expansion program that saw the opening of as many as 20 new showrooms a year in the past.

This year there could be a net gain of up to eight showrooms—on a base of 309 stores—with four new units already set, the renovation of two others and the replacement of another pair.

Three showrooms that had been projected for this year have been delayed until 1989, by which time Service expects to pick up its expansion pace and open over a dozen units.

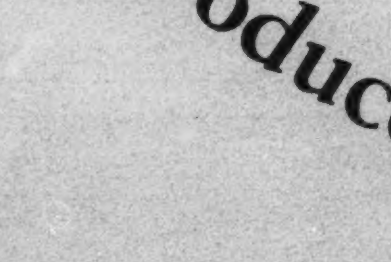
Three 50,000-square-foot Service showrooms have already opened; in Chattanooga, Tenn., third in that city and 17th in the cataloger's home state; Denver, Colo., fifth in that market and eighth in the Rocky Mountain State; and Columbus, Ohio, fourth in the city and 12th in the Buckeye State. As for other stores for this year, already on the drawing board is a 50,000-square-foot unit in Patchogue, N.Y., sixth in the Long Island suburbs of New York City and the Empire State's 19th.

Renovations were made this spring on the 29,000-square-foot Waterbury, Conn., unit and the 47,000-square-foot store in Jacksonville, Fla., while replacement units will be unveiled this fall for the showrooms now in North Columbus, Ohio (50,000 square feet) and the Goodlettsville suburb of Nashville (81,000 square feet).

Goodlettsville was also the location for the launching of a Zimm's jewelry specialty store, the third such type of unit for Service.

Six new showrooms are already set to debut early next year. They include 50,000-square-foot stores that were to have opened this year in Middletown, N.Y.; the Bloomingdale suburb of Chicago, a market where Service already has 20 units; and its initial unit in the Washington area in Waldorf, Md.

The other three are 50,000-square-foot showrooms in Stuart, Fla., 35th in the Sunshine State; Louisville, Ky., third in that city and eighth in the Bluegrass State; and St. Peters, Mo., a suburb of St. Louis where the cataloger already has four units.



Goody® introduces The Pretty Neat Beauty Organizers.™

What happens when you combine Goody's manufacturing know-how with some Pretty Neat ingenuity?

You get the first beauty organizers designed especially for both make-up and fashion accessories: Pretty Neat® Beauty Organizers. And you couldn't give your customers a better combination of superb styling and useful features.

Like roomy compartments and swing-out trays that glide for easy access. In sizes from simple compacts to deluxe double-trayed,

Meijer Maintains Its Position as a Michigan Power

Meijer			
	1987	1986	% Change
Sales (In Millions)	$2,540	$2,310	10%
Earnings (In Millions)	NA	NA	—
Stores	53	53	0

NA—not available *Source: DSN research*

Meijer's sales grew 10% last year to $2.5 billion. The percentage growth of its assets has been doubling since 1983. (DSN photo)

GRAND RAPIDS, Mich. — Wal-Mart, K mart and others have been in the spotlight for their "new" U.S.-oriented hypermarket concepts. Meanwhile, Meijer raises no objection against the publicity of the not-so-new retail approach, content to let competitors bask in the glory.

Meijer, which pioneered the U.S. hypermarket 20 years ago, has staked out only the states of Michigan and Ohio as its territory to date, but has found those markets to be fertile soil for growth.

The percentage growth rate of Meijer's assets has doubled each year since 1983 when the company had $211 million in assets. The next year assets grew by 11 percent; then the next two years surged by 23 percent and then 46 percent, respectively.

The company currently has assets of over $572 million, based on the most recent data available from the Michigan Department of Commerce. While this is but a fraction of chains like K mart and Wal-Mart, its growth history indicates Meijer is on the move.

Operational Changes

Among the operational changes the retailer has made since the start of 1988 includes the shift to 24-hour operations at most of its locations from 18 hours per day. The company is in the process of hiring 200 additional store level managers to handle the extended hours.

Despite its long history of hypermarket retailing, Meijer keeps one of the lowest profiles of any U.S. retailer, except, perhaps, when it comes to its customers.

As long ago as 1984, before Meijer's 225,000-square-foot megastores became commonplace on the Grand Rapids, Toledo, Columbus and Cleveland skylines, the now 53-unit chain was the favored retailer.

Nearly 87 percent of the greater Grand Rapids market said they had shopped Meijer during the past month, compared to 71 percent at K mart, 47 percent at Sears, and 42 percent at JC Penney, according to a study conducted by the *Grand Rapids Press* four years ago.

While Meijer has the added attraction of food, that does not explain away its superior standing. When the 750 people surveyed were asked where they shopped for clothing during the prior month, Meijer still came out on top, higher than K mart, Penney, Sears and Ward, as well as traditional department stores like Hudson's and May's.

While the preference for Meijer was not by as wide a margin when examined across all merchandise lines, it is clear that food is not the only reason for its popularity.

It was highly rated for best variety and selection of merchandise, helpful and friendly salespeople, low prices and good values. In these areas, Meijer outperformed Sears, K mart, Ward and Penney. It lost to Sears and Penney only in up-to-date fashions.

You couldn't make a better case for beauty.

double-mirrored models with convenient handles. All in appealing colors with eye-catching consumer packaging, die-cut to show off the colors. And all at attractive prices.

All of which will make Pretty Neat Beauty Organizers a year-round business with beauty-conscious women of all ages. Which is exactly what you expect of the company that launched the bestselling Lifestyles™ line. And Pretty Neat Beauty Organizers will be just as successful.

For all the details about the Pretty Neat line, call our new toll-free line. In fact, you couldn't make a better connection in beauty: 1-800-537-0933.

pretty neat
ANOTHER GOODY• COMPANY.

Ames Fine Tunes Stores for the '90s; Broadens Appeal, Sharpens Focus

Ames			
	1987	1986	% Change
Sales (In Millions)	$2,112	$1,888	11.9%
Earnings (In Millions)	57.6	54.3	6.1%
Stores	488	321	52%

Source: DSN *research*

ROCKY HILL, Conn. — With the retirement of founder and chairman Herb Gilman, the opening of new specialty concepts, the premiere of a new prototype, and the ascendancy of new managers like Jim McKitrick, Les Deitzmann and Duane Wolter, the realignment of Ames Department Stores is nearly complete.

And after the well-publicized shrinkage problem of a year ago, the company has staged a strong recovery. Sales in fiscal 1988 rose to $2.1 billion from $1.89 billion the previous year, and profits (which were affected by the shrinkage problem through most of the year) rose slightly to $57.6 million from $54.3 million. Comparable store sales rose 10 percent, and the shrinkage rate dropped to 1.6 percent, near the industry average. The company also premiered its Bargain World low-overhead, inner-city concept and laid the groundwork for Office Shop Warehouse, the office products superstore it opened this March.

Redefined Mission

Gilman's hand-picked successor, president and chief executive officer Peter Hollis, has spent the past year redefining the $2 billion discounter's mission and the results are that the company will stick close to the formula that made it successful while experimenting with new concepts and approaches.

"Our real estate focus is clear," Hollis said. "We're going to be as rural as we can be. That is where we've been successful, and that's where we will concentrate our resources.

"We have redefined our merchandise and narrowed our price points to make them easier to understand from the customer's perspective. We're going to reduce sku's, except in 73 metro stores, where we're selectively broadening our selection. We're trying to communicate with our customers, to give Ames a sharper, clearer image."

Hollis pointed to the hiring of Jim McKitrick as a key to Ames' future direction. McKitrick, president of the company's G.C. Murphy discount and variety store division, is a veteran of K mart, The Warehouse Club and TG&Y, and will oversee the specialty retail experiments Ames plans to introduce over the next year or two. "It was my strong desire to use this division as a low-cost laboratory for new retailing concepts," Hollis said. "Jim has the combination of skills and experience to oversee that development."

McKitrick will also oversee the "redefining" of Murphy's variety store operations. "We've had to look at what a variety store is supposed to do," Hollis said. "We're expanding items like candy, stationery, flowers and wickerware, and getting out of high-cost, low-margin products like 35mm cameras and VCRs."

Variety stores, he added, are not just small discount stores, and the company has truly cleared out "inappropriate" merchandise. A recent visit to a Murphy store, for instance, revealed a huge baseball card display, ultra low-cost leisure apparel and an overwhelming attention to gift merchandise.

Committed to Bargain World

At the same time, Murphy is planning to significantly increase its commitment to the experimental Bargain World concept. Six units have opened since last summer, and 20 more of the hybrid variety/dollar stores are scheduled to open by January of 1989.

For now, the plan is to concentrate the stores in inner-city or "ethnically mixed" neighborhoods. "Why should inner-city consumers be forced to always pay more for basic necessities," Murphy vp, Jim Brainerd asked rhetorically. "As traditional retailers followed their customers to the suburbs, the ones that remained said, in essence, that if they were going to stay, they were going to make more money. So they overcharge the very people who can least afford to pay more. Bargain World will make discount-type merchandise attainable to these consumers at real discount prices."

New Prototype Intro

Late this summer, Ames will introduce its new prototype, designed by Columbus, Ohio-based Retail Planning Associates. "It will still be very clearly Ames," Peter Hollis said, "and it will cost about the same as what we're doing now. But it will communicate an '80s and '90s feel, and parts of it will be added to existing stores as they come up for remodeling."

Six of the new prototypes will be built by year-end, including one near Ames headquarters in Rocky Hill, Conn.

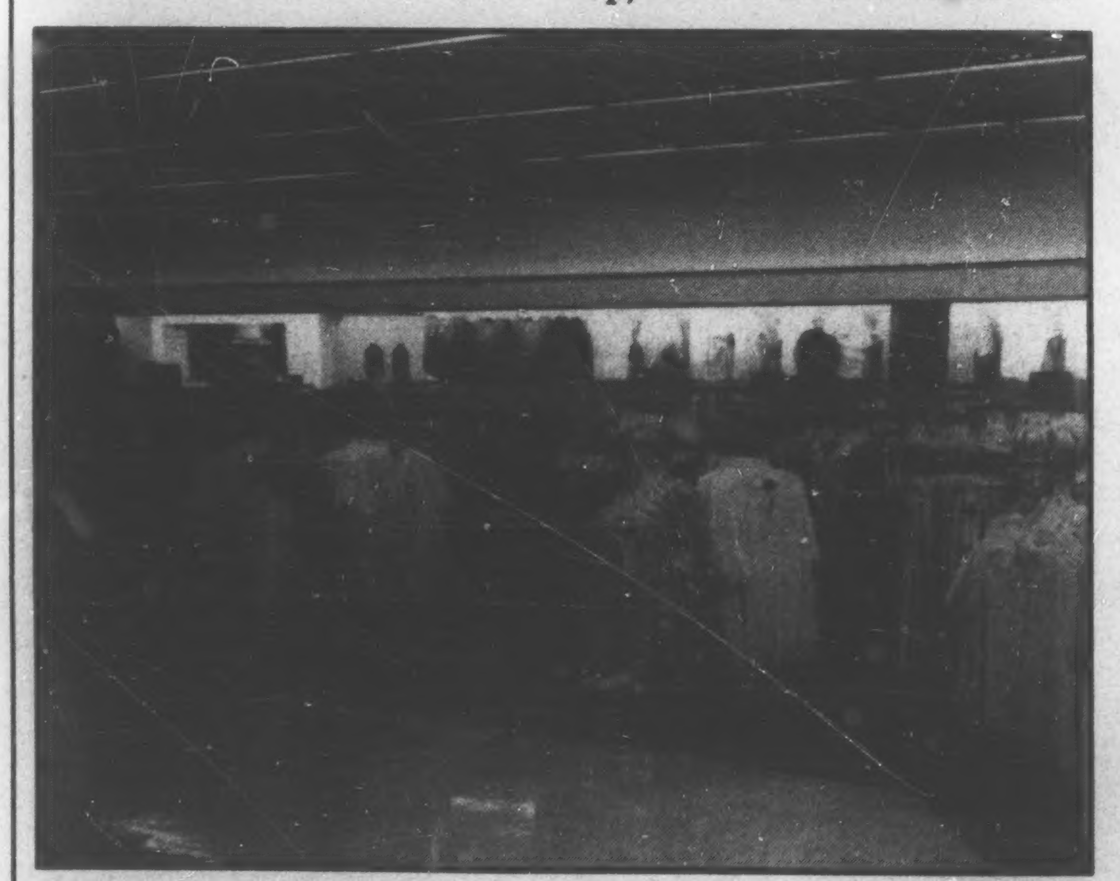
The company unveiled Office Shop Warehouse, its first, true specialty retailing concept (although Bargain World could be looked at that way) near McKeesport, Pa. It was followed in June by Crafts & More, an upscale crafts retailing experiment. Another specialty concept is waiting in the wings.

Despite the surge of activity, Hollis said that the company will "perpetuate the vision that Herb Gilman worked at for 30 years. We will remain a rural, everyday low-price retailer, and we will retain the strong, people orientation Herb built up over those years."

Although Gilman has retired to Southern Florida, Hollis said that he remains active as "our official competitive shopper. We speak on the phone regularly, and he keeps me up to date on what some of our competitors are up to."

Gilman, Hollis said, made his mark on Ames with "his very strong real estate and market research skills; he has left us with a core of very profitable stores in excellent locations. He is also a terrific merchant, particularly in hard lines. Like all great merchants, he developed a philosophy and stuck with it."

"For instance," Hollis continued, "he made a decision to limit advertising to keep costs down. Once he made that decision, he stayed with it through some tough times, and now that is a cornerstone of our operations."



Ames' new prototype (here, in Winstead, Conn.) features a modified racetrack and increased fashion-forward apparel. (DSN photo)

Best Seller.
PROTECTIVE COATING ACTION
Pepto-Bismol
Stomach
Nausea

Best Revamps Into Store-Driven Jewelry, Hard Lines Specialty Chain

RICHMOND, Va. — Best Products has changed–it ain't what it used to be.

Once a premier catalog showroom chain, the company has reshaped itself into a unique niche merchant, a jewelry and hard lines specialty discounter that aims to be the dominant retailer in the five broad areas it merchandises.

Best Products

	1987	1986	% Change
Sales (In Millions)	$2,067	$2,142	(3.5%)
Earnings (In Millions)	47.6	(24.8)	—
Stores	194	194	0

Source: DSN *research*

As executives sum up the new Best, the company now is a customer-directed, store-driven retailer, rather than a catalog-oriented merchant.

At the same time, Best is probing new merchandising directions like expanding its Best Jewelry specialty store chain; developing a direct mail operation to leverage its catalog and flier experience and mailing lists; probing electronic retailing through in-store information kiosks; and teleshopping via participation in one cable system's interactive test marketing of goods from mini-catalogs from about 50 different retailers.

Within its 194 stores, Best now targets five key categories—jewelry, home goods, consumer electronics, leisure and juvenile—positioning the chain between full-line discounters, which play up a limited offering of a broad mix of hard goods, and specialty retailers that feature a deep assortment in just one category.

Jewelry, of course, remains Best's dominant category and the chain's growing success in merchandising diamonds, watches and gold items is responsible for the decision to expand the Best Jewelry chain. While no new Best showrooms will be opened this year, 15 to 20 Best Jewelry units are due, almost doubling the size of that 22-unit chain.

Jewelry last year accounted for 18.2 percent of sales, up from just 15 percent a few years ago, and 65 percent to 70 percent of profits. The company made money on all categories, except toys, last year.

Overall, Best's marketing focus is on trend setting and growth classifications like home office, home furnishing, development toys, home and office electronics, and ready-to-assemble furniture while retaining its position in such core areas as jewelry, watches, sporting goods, juvenile furnishings, housewares/appliances, and seasonal items.

Hardware and auto accessories, two minor categories where Best never established a dominant position, have been trimmed and melded into the leisure mix while the toy assortment (except for development toys) is set to be sharply cut back and featured mainly as a holiday seasonal offering. A major portion of Best's sales drop last year was due to reduced toys volume.

In reshaping itself, Best has fined tuned its merchandising to emphasize everyday low prices to meet or beat competitors on non-promoted items, eliminate redundant and slower-moving, lower-end items at opening price points, and augment its offering of new and higher-price goods.

Fewer Catalogs Distributed

The catalog, meanwhile, is now viewed as just one among a number of media used to communicate with shoppers. Cut about 67 percent to 300 pages in 1987, only about 7 million copies of the same-size book will be distributed this fall—4 million via mail and the rest through the stores—down from a total of about 12 million copies last year.

The catalog shows about 6,000 sku's, or just under half of the 13,000 items merchandised in a typical showroom.

The savings from distributing fewer copies of a smaller main catalog will be used to increase print and radio advertising expenditures. The goal of the promotional shift is greater exposure of Best's assortment through more frequent promotions to a large customer base, particularly in key buying periods.

The transformation, which began to be phased in during 1986, paid off last year when Best made an impressive turnaround. It saw $25.6 million in red ink on $2.1 billion in sales in 1986 switch to $30.5 million in net earnings on just over $2 billion in volume.

The company expects about a 2 percent sales growth, rebounding to about $2.1 billion.

Best's new merchandising and promotional effort helped boost gross margins, which went up 7.4 percent last year to reach 27.5 percent, the highest in the past five years.

A concurrent continuing reining in of expenses resulted in a 5.1 percent reduction in selling, general and administrative costs (as a percentage of sales) to 19.5 percent.

A key role in engineering Best's turnaround was played by William F. Costello, who had been executive vice president and chief financial officer. In March, he was promoted to president and chief operating officer, a post vacant since February 1987 when Robert E.R. Huntley, then president, was advanced to chairman and chief executive officer.

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Best Products' probe of electronic retailing includes testing Best Notes, an informational interactive video terminal. (DSN photo)

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ANNUAL REPORT BRADLEES

Takeover Problems Spoil Strong '87 for Bradlees

BRAINTREE, Mass. — 1987 ended on a positive note for Bradlees. Sales rose 10 percent to $2.064 billion and profits were up slightly from fiscal 1986.

But the warm glow of success was short lived. Hours after the fiscal year ended on Jan. 31, 1988, The Dart Group initiated a hostile takeover of Stop & Shop, Bradlees' parent, thrusting the company into turmoil.

Now, more than five months after Dart's Feb. 1 overture, which was successfully rebuffed, the repercussions of the fight are still being felt by Stop & Shop, particularly by the company's 169-unit Bradlees discount chain.

Bradlees is being trimmed to pay off the $1.4 billion debt incurred in Stop & Shop's leveraged buyout that thwarted The Dart Group's bid.

Stop & Shop successfully completed the LBO with the financial help of Kolberg, Kravitz Roberts & Co., which now owns the company.

Bradlees ended 1987 with 171 units, and 12.286 million square feet of retail space, and will pare down to 110 stores by the end of this year.

The largest part of the chain's reduction will be the sale of Bradlees' 58-store Southern region, which posted $635 million of the company's $2.06 billion total last year.

Many of the units in the Southern region are fairly new additions to the chain and are not performing as well as the company's more mature markets, $6 million in sales on the average compared to the its $10 million goal.

Bradlees' impact on Stop & Shop's bottom line continued to lessen. According to the fiscal 1988 annual report, Bradlees' $2.06 billion sales represented 47.5 percent of Stop & Shop's total sales, down from 48.4 percent in fiscal 1987.

Bradlees' operating profit for fiscal 1988 was $56.961 million, or 48.6 percent of Stop & Shop's total, compared to 51.4 percent in fiscal 1987, 41.1 percent in 1986, 75.4 percent in 1985 and 83.4 percent in 1984.

Bradlees

	1987	1986	% Change
Sales (In Millions)	$2,063	$1,873	10.1%
Earnings (In Millions)	56.9	56.6	0.5
Stores	171	162	5.6

Source: DSN *research*

Net earnings were not broken out for Bradlees.

Bradlees had $710.1 million in "identifiable assets," according to the annual report and claimed $50.17 million in depreciation and amortization of property, plant and equipment, and lease acquisition costs.

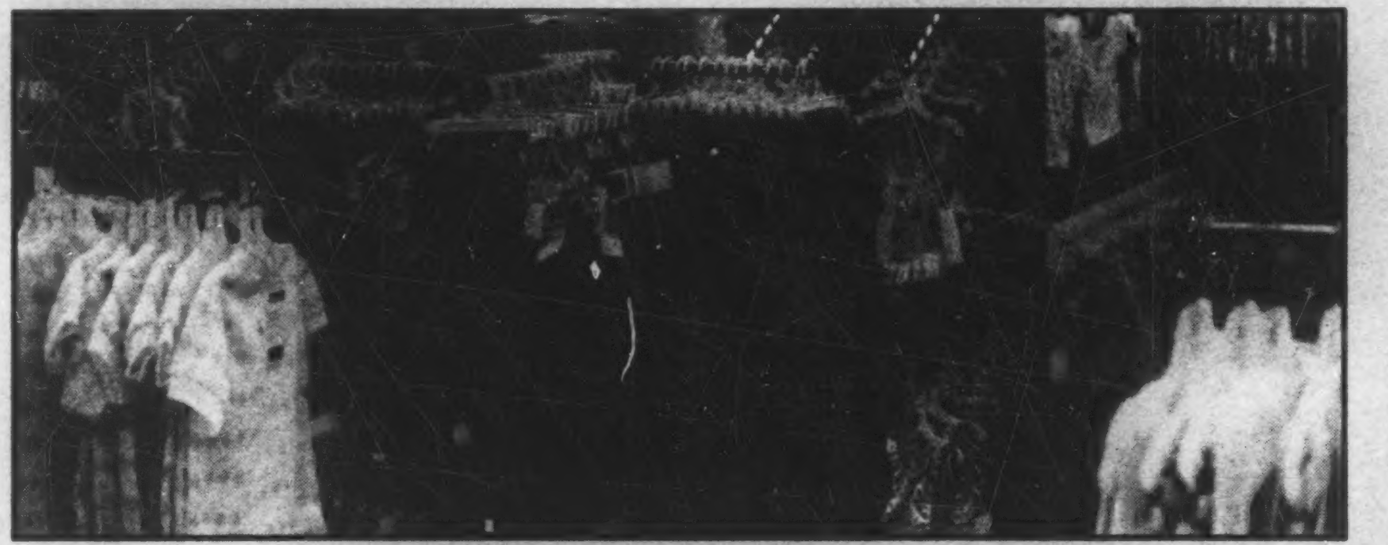
The discounter opened 10 new stores in 1987, including the three stores in North Carolina, a new market for the chain, and refurbished 13 stores. Bradlees also introduced a company credit card, added Discover Card services and completed the installation of its new IBM POS system.

The job of president, vacated in July 1986 by Harry Kohn, who went to Stuart's Department Stores, remained open throughout 1987. But the position was filled before the end of fiscal 1988 by George Granoff, formerly Bradlees' executive vice president.

In April, when Bradlees' chairman and chief executive officer Harold Frank retired, Carol R. Goldberg, president and chief operating officer of Stop & Shop, assumed Frank's responsibilities in addition to her own.

Other recent personnel changes included Jack Kushinsky, senior vp of Stop & Shop, became executive vp of Bradlees, responsible for systems, control and administration; and Nancy Marino, who was promoted to vp and general merchandise manager of feminine apparel for Bradlees.

Sales may have risen at Bradlees but overall personnel numbers were reduced due to corporate directives. Stop & Shop made large personnel cutbacks and initiated some job consolidations at the corporate level as part of its corporate restructuring program aimed at reducing annual overhead and non-store operating expenses.



After improved sales and profits in 1987, Bradlees faces an uphill battle this year due to the aftereffects of the Dart Group's failed takeover bid. (DSN photo)

Stop & Shop cut 450 jobs, and merged the personnel, finance and systems staffs of its two divisions, supermarket and discount store chain. These moves cut corporate personnel by 14 percent and operating costs by approximately $14 million.

Those cutbacks included some top vice presidents at Bradlees, among them, Edward Cooney, senior vice president, personnel, and Richard Silverman, vice president, operations. Bradlees' merchandising staff was also trimmed. Cutbacks included Robert Whitman, vice president and general merchandise manager, home entertainment, smallwares, home improvement and toys, and Denis Donohue, divisional merchandise manager, smallwares.

Stop & Shop also consolidated its corporate offices in Braintree last year and built itself a new corporate headquarters building to house both company divisions.

So far 1988 has been a rocky road for the discounter with the LBO, store and personnel cutbacks, and the $2,500 in assessment fees Bradless paid the New Jersey Division of Consumer Affairs as a settlement for not keeping adequate supplies of advertised merchandise in its stores. Despite the payment, Bradlees admitted no guilt in the matter. Consumer Affairs was seeking $25,000 for seven separate such violations.

The bright spots include the 3 percent to 4 percent increase in comparable store sales recorded in the first quarter of this current fiscal year, which was ahead of plan; and advancing sales in home decor categories and consumer electronics.

And although store expansion is now stalled, Bradlees has opened one new unit this year, in Falmouth, Mass., on Cape Cod. The new 62,200-square-foot store is Bradlees' first store on the Cape and represents a new prototype format. The store contains merchandise and displays geared to resort community lifestyles and tastes.

ANNUAL REPORT FRED MEYER

Fred Meyer: New Leader, New Market, New Plan

PORTLAND, Ore. — Fred Meyer's last 12 months have been punctuated by an increased expansion rate and the arrival of a new leader—former K mart executive vice president of specialty retailing Fred Stevens.

Shortly after resigning from K mart in April, Stevens joined Fred Meyer as chief executive officer and chairman, replacing now-retired Oran Robertson. Robertson is still on the board, and Cyril Green, president and chief operating officer, remains at that post.

Steven's experience in Fred Meyer's Pacific Northwest territory includes time spent in the Seattle area in the '70s and the overseeing of K mart's drug store chain, Pay Less NW, based in Wilsonville, Oregon.

An industry source said Stevens had been studying Fred Meyer's operation as part of the research for K mart's hypermarket venture, American Fare. Although Fred Meyer's stores are not visually similar to hypermarkets—more resembling a cross between a discounter, home center, department store and supermarket—its product base does have the diversity of a hypermarket and some of its newer sites are hypermarket-size at about 200,000 square feet.

Stevens joins a retailer that is dominant in its six states and is aggressively opening new stores, trying new concepts and remodeling existing stores. During the last five fiscal years, Fred Meyer's total store count has jumped from 68 to 99, while 36 stores were remodeled during this time.

Fred Meyer

	1987	1986	% Change
Sales (In Millions)	$1,848	$1,688	9.5%
Earnings (In Millions)	53.9	45.4	18.7
Stores	99	93	6.5

Source: DSN *research*

In the most recently completed year, ended Jan. 30, 1988, Fred Meyer spent $79 million in capital expenditures to add 747,000 total retail square feet. While the current, multidepartment units average 112,200 square feet, new stores built over the last five years have averaged considerably higher at 146,400 square feet.

During 1987, the chain added four multidepartment units, started construction on two and remodeled four other stores. In the second half of the year, Fred Meyer introduced its first entirely soft goods freestanding store with the opening of a 25,000-square-foot site in Kenai, Alaska.

According to the company, the new venture—selling apparel, domestic products, and shoes—opened in September and exceeded its projected sales and income targets for 1987.

Shortly after this opening, Fred Meyer launched its 1,500-square-foot freestanding fine jewelry stores. Branching into specialty stores, like jewelry, has provided Fred Meyer with both greater flexibility and a chance to gain added name recognition. Since the chain is usually located in neighborhood centers, by placing the fine jewelry stores in large regional malls , Fred Meyer is able to expand its customer base.

The expansion pace will continue this year, with $100 million slotted for new stores and remodels (not including building and land costs). Current plans call for the opening of two, large multi-department units in Oregon and Washington state, at least seven specialty stores—including a 33,000-square-foot five-department unit in Seattle—and several more fine jewelry stores.

Fred Meyer also confirmed in its annual report that: "An entrance into the Sacramento, Calif., market is high on our priority list for 1990."

The company currently has 100 stores, which combined for sales of $565 million and net earnings of $5.70 million in the first quarter ended May 21, 1988. While net sales during the period rose 7.3 percent, comparable store sales increased just 2.5 percent.

According to Stevens, the small gain was attributable to poor weather conditions this spring adversely affecting gardening, outdoor living and apparel sales, compared to favorable weather in the same period last year. This level falls sharply below the comp stores sales increase of 6.6 percent during 1987.

Net earnings increased 14.7 percent during the first period and income from operations grew 11.4 percent, primarily due to increased gross margins in higher-margin categories.

In the 1987 annual report, Fred Meyer pointed out that it has been able to increase gross margins by bringing its product mix toward more non-food items.

ANNUAL REPORT TJX COS.

TJX Cos. Steamrolls to Front of Off-Price Pack

FRAMINGHAM, Mass. — Thirteen months after being spun off by parent Zayre Corp., TJX Cos. is the industry's leading off-price apparel company.

TJX Cos., which consists of T.J. Maxx, Hit or Miss and the Chadwick's of Boston cataloger, posted a 17.8 percent increase to $1.64 billion in sales last year. That figure was enough to top Marshalls, which registered $1.6 billion in sales in 1987.

TJX overtook Marshalls not just because Hit or Miss and Chadwick's were for the first time combined with T.J. Maxx figures. In 1986, Maxx, Hit or Miss and Chadwick's totaled just under $1.4 billion in sales. Marshalls had $1.409 billion in sales in 1986. So, the fact is that TJX Cos. simply grew at a faster rate last year than Marshalls.

T.J. Maxx, which is the dominant chain of TJX, continues to be one of the most profitable off-price apparel chains in the country. With 265 units at year-end, Maxx added 39 stores last year, four more than planned, according to Ben Cammarata, who is president and chief executive officer of TJX, chairman of T.J. Maxx and acting president of Hit or Miss.

Last year also saw a 27.7 percent jump for TJX in real net income to $77.4 million from $52.2 million before a mandated accounting change for tax reasons (after the accounting change, net income increased 48.2 percent).

T.J. Maxx, which sells apparel for the entire family at everyday discounted prices (20 percent to 60 percent below department store levels), successfully expanded into the California market for the first time last year, with 10 units throughout the state.

Expansion on the West Coast was made possible when a distribution center was opened in Evansville, Ind., early last year. The DC will be expanded this year by approximately 200,000 square feet, bringing its total size to just under 1 million square feet (the chain's Worcester, Mass., DC is about 500,000 square feet).

T.J. Maxx's store refurbishing also continued on schedule last year. The chain developed a new store prototype in 1984. Since then, all new units have been constructed to conform to the prototype, and last year 19 units were remodeled. The renovation program is scheduled for completion in 1990. The average T.J. Maxx store is 25,000 square feet.

What sets T.J. Maxx apart from most other off-pricers is its emphasis on fresh selection. With each store receiving two shipments a week—over 10,000 new items—a constant flow of new goods is ensured, and the merchandise carries labels/brands recognized by the average shopper (women, age 25-49, most with children).

The reasoning behind the spin-off of the three apparel specialty operations last year was clear. While Zayre Corp.'s general merchandise discount store chain was showing sluggish sales growth, T.J. Maxx in particular, as well as Hit or Miss and Chadwick's, were doing well. The best way to maximize the growth potential of the three off-price apparel divisions was to spin them off as their own public company and raise capital.

In June of last year, that's what Zayre did, and the public offering generated approximately $200 million. (Although the stock quickly hit $28 per share a year ago, last month it was trading at 17; it had been as low as 11 after the October market plunge.) Zayre Corp. retained an 86 percent ownership of TJX Cos.

At the time of the spin-off, the three businesses comprising TJX were stimulating huge increases in net income for its parent. For the first quarter ended May 2, 1987, Zayre's general merchandise discount store earnings were $21 million on sales of $1.3 billion. The three divisions that a month later would comprise TJX Cos. had net earnings of $13.3 million on sales of $364.9 million. TJX Cos. contributed a mere 28 percent of the total firm's sales, but 63 percent of its earnings.

While T.J. Maxx maintained a strong performance through 1987 (Cammarata said Maxx had a 10 percent comp store sales increase last year), Hit or Miss, the woman's apparel off-pricer, was less robust. Acknowledging this, Cammarata recently instituted some key changes. He said he wants "to make Hit or Miss less vulnerable to the whims of fashion."

Cammarata, essentially, is edging Hit or Miss more toward the T.J. Maxx philosophy: buying closer to need, buying more national brands than designer labels, lowering inventory, and generally, "moving the chain toward more value price points."

Cammarata said Hit or Miss' strategy (average store size is 4,000 square feet compared to Maxx's 25,000 square feet) is already showing results. Sales for May, according to Cammarata, were up 5.8 percent on a comp store basis, in the face of an industrywide sluggish women's apparel business.

Hit or Miss' site selection will also be redesigned. The plan this year is to close 15 existing Hit or Miss units while opening 40 new ones, for a net increase of 25 stores this year.

The plans for Maxx are to open 40 new units this year and to continue expanding the chain's women's shoes and fine jewelry segments, which have been getting good customer response.

Comp store sales increase for TJX Cos. was 7.2 percent last year, compared to a 6.2 percent increase in 1986.

TJX Cos.*

	1987	1986	% Change
Sales (In Millions)	$1,644	$1,395	17.8%
Earnings (In Millions)	125.7	104.5	20.3
Stores	750	687	9.2

*Includes T.J. Maxx, Hit or Miss and Chadwick's of Boston

Source: DSN research

ANNUAL REPORT MARSHALLS

Marshalls Back on Track Following Sluggish '86

WAKEFIELD, Mass. — 1987 was a key year for Marshalls, which got back on track after a sluggish 1986.

But even though Marshalls performed substantially better in 1987, it still lost its No. 1 apparel off-price ranking to TJX Cos. last year. However, as far as single off-price chains are concerned, Marshalls, which topped $1.6 billion in sales last year, is still No. 1 (T.J. Maxx recorded just under $1.3 billion in sales).

It became obvious by early last year that Marshalls had lost its way in 1986. Top management admitted that the family apparel off-pricer had gotten away during the past couple of years from what the chain traditionally did best—offering better branded apparel at price points 20 percent to 60 percent lower than most department stores.

As Marshalls continued an aggressive expansion track through the mid-1980s, and started getting undercut by other newer apparel off-pricers, the huge chain began competing more with the new off-pricers. The chain, essentially, lost its vision. Instead of making top branded and designer goods at value price points a priority, the chain began settling for less. Neutral brands no one ever heard of began showing up on racks at low, opening price points.

The chain, suddenly, was no longer carrying the right goods for the department store-type shopper.

And 1986 earnings came in below expectations, off 5 percent compared to a year ago.

So, in early 1987, parent Melville Corp. saw the writing on the wall and went about getting Marshalls back on track.

Melville brought in a new president a year ago this month, Francis H. Arnone, who came from The Broadway, the California department store.

Earlier in the year, a top merchandiser, David Dash, also was added. Dash had been at Lord & Taylor. Also added during the first half of 1987 were two senior vice presidents: Rocky Sullivan from Chess King and Jim Mixon, from Wal-Mart, handling warehouse, distribution and traffic.

This new team put a top priority on refocusing Marshalls' merchandise mix toward higher-end brands and in upscaling the stores' environment.

Before Dash, who is senior vice president in charge of women's wear and fashion accessories, all categories had just one senior vice president, Lawrence Finn. The addition of Dash enabled a split of merchandising duties and a more consumer-driven management team.

Last year's figures bear out the newly refocused chain. Sales increased 13.8 percent last year, almost double the 7 percent increase in 1986.

Melville management, in its just-published annual report, said, "Marshalls . . . successfully turned around a disappointing year in 1986 and registered strong sales and profit improvements" in 1987.

Marshalls—whose average store is 29,000 square feet, slightly larger than T.J. Maxx—opened 25 new units last year and didn't close any stores.

This year's plans call for opening another 25 units, which would bring the chain to 311 units by year-end 1988.

Currently, Marshalls has more units in California—43 of them—than any other state. Other stores are scattered through Florida (24), Massachusetts (23), Illinois (20), New York (18) and Texas (17), among others.

Marshalls

	1987	1986	% Change
Sales (In Millions)	$1,603	$1,409	13.8%
Earnings (In Millions)	NA	NA	—
Stores	286	261	9.6

NA—not available

Source: DSN research

Marshalls, as seen in this Bedford, Mass., unit, has upscaled its store environment and has also refocused on higher-end brand and designer names. (DSN photo)

Despite Priority Efforts, Caldor Profits Again Sag

NORWALK, Conn. — Caldor's operating earnings again headed south in 1987, plunging 20 percent more, to below their 1982 level.

That, despite an infusion of executive talent from its sister chain, Venture, priority treatment from its parent, May Department Stores, and an 11 percent sales gain to a record $1.5 billion in 1987. Same store sales rose 7.7 percent.

Nonetheless, operating profits for Caldor sank to $56 million in 1987, while operating 116 stores, a slump of one-fifth from $70 million in 1986, when it operated 113 units.

In 1986, operating earnings had fallen 17.6 percent from a record $85 million from 106 stores in 1985.

In comparison, Caldor logged operating earnings in 1982 of $59 million—when it ran 87 stores under ownership of Associated Dry Goods.

Caldor's operating earnings as a percentage of sales fell in 1987 to 3.7 percent, May reported in its annual report, from 5.2 percent in 1986 and 6.6 percent in 1985. Return on beginning net assets also continued to decline: 15.9 percent last year; 18.8 percent in 1986; and 23.8 percent in 1985.

On a positive note, sales per square foot improved at Caldor to $140 in 1987 from $130 the previous year, possibly a benefit from switching to high-profile merchandising.

Both May and Caldor spokesmen declined to comment on the chain's continued decline in operating profits.

Capital expenditures increased to $33 million in 1987 from $31 million in 1986. Caldor opened three new stores last year, down from seven in 1986, and remodeled an undetermined number of existing stores.

It has opened all three of its planned new stores for 1988, pushing the total to 119.

Caldor opened new units this year in Waterford, Conn., Somerdale, N.J., and Warminster, Pa. The last two are both in the metro Philadelphia market.

Last fall it opened new stores in Philadelphia, Plainsboro, N.J., outside Princeton, and in a new market, Westminster, Md.

Its home state of Connecticut accounts for the largest number of units, 31, followed by New York, 30; Massachusetts, 23; New Jersey, 19; Maryland, eight; Pennsylvania, four; Rhode Island, three; and New Hampshire, with one unit.

May intends to invest $245 million during its 1987 to 1991 expansion program to open 42 Venture and Caldor stores, adding 3.5 million square feet in retail space.

The May 1987 annual report states in its review of operations that Caldor continued last year "the effort begun in 1986 of repositioning Caldor's inventory and implementing competitive pricing policies. The investment being made in these programs is substantial and has considerably improved Caldor's position in the marketplace." The review says nothing, however about why operating profits fell for the second year in a row.

Operating profits also declined at Venture, but May attributed the $10 million decrease to $70 million in 1987 from $80 million in 1986 to a change in LIFO accounting.

When May acquired Caldor, it raided Venture's executive suite to overhaul Caldor. It brought in Venture chairman Don Clarke to become chairman and chief executive officer of Caldor and shifted Marc I. Balmuth from executive vice president, Venture, to president, Caldor.

In addition, it made Venture's store operations chief, Michael R. Lynch, Caldor's new vice president and director of stores. May also brought in from various department store divisions three other vice presidents: John Cook, chief financial officer, Elliott Kerbis, general merchandise manager, hard lines; and James D. Lee, general merchandise manager, soft lines.

In 1987, Caldor launched a program to revitalize its stores, using K mart and Wal-Mart-type merchandising methods, including higher-profile displays, using more bargain tables and setting sharper prices.

In a move to slash shrinkage of high-ticket items, consumer electronics, housewares and apparel, Caldor installed in 15 stores last year the Chek/Link soft-tag Electronic Article Surveillance system that employs checkout counter deactivators and exit monitors. The installations, made in two stores in Massachusetts and the remaining 13 in New York and New Jersey stores, cut shrink rates by five to six percentage points. In the affected stores, shrinkage was running as high as 7 percent to 8 percent, an industry source said.

Caldor plans this year to install this system in 15 additional stores with high shrink rates, the source said.

In addition, Caldor began refurbishing what ceo Clarke called Caldor's "old, tired-looking stores" with new paint schemes and carpeting.

What Caldor hasn't done is to begin addressing its lag in cash register scanning. "We don't have scanning, but it is in the plans to be tested," a Caldor source said. No time frame when that testing would begin is available, he said. At this time last year, Caldor said that scanning would have to wait until its sister chain, Venture, completed its scanning conversion, expected by the end of this month.

Caldor

	1987	1986	% Change
Sales (In Millions)	$1,502	$1,348	11.4%
Earnings (In Millions)	56	70	(20)
Stores	116	115	0.9

Source: DSN *research*

Hills Growth Streak Hits 30 Years, and Counting

Hills Department Stores

	1987	1986	% Change
Sales (In Millions)	$1,514	$1,343	12.7%
Earnings (In Millions)	103.5	94.4	9.6
Stores	151	136	11.0

Source: DSN research

CANTON, Mass. — At Hills Department Stores, 1987 contained these very memorable achievements:

- It was the company's 30th anniversary in the discount store industry;
- The 30th consecutive year of positive operating income and sales growth;
- The beginning of once again operating as a publicly-held company.

On a sadder note, last year also marked the death of company chairman and founder Herbert Goldberger, who founded Hills in 1957.

Goldberger was succeeded by his son Stephen Goldberger, president and chief executive officer, who received the additional title of chairman of the board on Feb. 1, 1988.

And Hills won *DSN*'s Discounter in Service to the Community (DISC) award for its many and varied community service projects, particularly the discounter's support of the "Just Say No" to drugs and alcohol program.

In 1987, Hills began focusing on store expansion, a program the discounter will accelerate in the coming years. The expansion is a result of the discounter's improved cash flow from its new status as a public company. The 151-unit retailer opened 11 stores in 1987 and will open 16 this year for a total of 168 units by the end of 1988.

Hills became a publicly-held company in July, after about two years as a private company achieved through a leveraged buyout in late 1985.

The opening stock price was set at $11 a share and hit 12⅝ points a share before October's stock market crash. After Black Monday, Hills' stock plunged to 5¼ points a share. Since then the stock has recovered to about the $9 per share level.

Last year, Hills recorded $1.51 billion in sales, a 12.7 percent increase over 1986.

Comparable store sales for the last fiscal year increased 4.9 percent.

Operating profits for the chain rose 9.6 percent over 1986. At the same time, net profit rose to $32.5 million from a loss of $14.8 million in the previous fiscal year when Hills was still paying off the costs of the LBO.

The cost of sales as a percentage of total volume in fiscal 1987 increased to 71.0 percent, from 70.4 percent in fiscal 1986. The increase was due to efforts to increase market share, and the increased sale of hard goods which typically carry lower margins. The hard lines categories that performed particularly well for Hills last year were health and beauty aids, hardware, electronics, and appliances.

Gross margins dropped slightly in 1987, to 29.0 percent from 29.6 in 1986.

Last year, approximately 55 percent of all Hills' sales were attributed to soft lines, such products as apparel, domestics, home furnishings and jewelry. The balance, was in the hard lines areas, including toys and housewares.

And again, the typical Hills customer, 80 percent, was female from low- to moderate-income families.

Hills continued to emphasize its "Made In America" program in 1987 and reported that 80 percent of all its apparel sku's are American-made.

In keeping with the company's everyday low cost image, advertising expenditures as a percent of total sales were kept to 1.8 percent, a fairly constant number for the discounter.

Approximately half of the ad budget was spent on TV spots. Hills produced only three major circulars last year, at Christmas, back-to-school and Mother's Day, in addition to some smaller, market-driven circulars.

Hills broke into some new markets last year: the state of Michigan and Indianapolis.

Hills opened seven stores in Michigan in 1987, five in the Grand Rapids market and two in southern Michigan, in the Toledo area. In addition, four stores were added in Ohio and one in New York state.

This year, Hills hopes to open its first store in its headquarters state of Massachusetts, a unit that was to have opened last fall. The store, located in a new mall in Pittsfield, Mass., in the Albany, N.Y., market, hasn't opened because of unexpected zoning problems on the part of the mall's developer. The Hills unit, like all the other mall tenants, have been prevented from opening, although the unit is complete.

Only 10 of the new store sites slated to open this year have been identified by Hills executives. They include five stores in Ohio, three in Pennsylvania, one in Michigan and one in Indiana. Seven of the stores will contain 80,000 square feet and three will have 62,000-square-foot formats.

Last year was also highlighted by a Hills executive's testimony before a congressional subcommittee on the minimum wage.

George R. Friese, vice chairman of the board of directors, spoke before the House Subcommittee on Labor Standards on behalf of the International Mass Retail Association—which company chief executive Steve Goldberger is chairman of this year—to oppose a proposed increase in the minimum wage.

Friese told the committee that an increase in the minimum wage would "undermine our ability to provide employment opportunities for inexperienced entry-level workers" that will result in 882,000 fewer jobs, more than 40 percent of which will come from the retail sector, excluding restaurants.

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ANNUAL REPORT COSTCO

Costco Enchances Services to Boost Market Position

SEATTLE — Looking to enhance its niche in the competitive membership warehouse club industry, Costco recently opened two California locations, each with a deli, fresh meat department, scratch bakery and an expanded produce selection.

Located in the San Francisco Bay Area and greater Los Angeles market, the two warehouses each boast 125,000 square feet—about 25,000 square feet larger than a typical membership warehouse club—in order to accommodate the additional merchandise.

Costco first began testing the expanded food selection in a Seattle site last year, and while the concept has been placed in the two additional sites, it is still in a test phase, said company chief financial officer, Richard Galanti.

The expansion into the latest areas allows Costco to test the concept in three major markets, Galanti noted. He said additional warehouses opened later this year and some current warehouses could be expanded to include the additional food products. Under its present test mode, the concept is operating on a "so far, so good" basis, Galanti said.

Currently, Costco operates 43 warehouses, a total the company reattained with three openings this spring after having closed the same number in the Midwest in May.

Costco operated the three Midwest sites for over a year, but decided in April to abandon the unprofitable locations and concentrate on its successful markets. According to Galanti, Costco did not give up the Midwest casually, having first tried several different and expanded marketing techniques to draw more business.

Since the closure, Indianapolis-based Wholesale Club announced it is planning to open in one of the former Costco sites this fall.

Costco plans to open four additional sites by the end of its fiscal year in August, and the company expects to have about 52 warehouses by December and some 62 by the end of the following year, according to Galanti.

Of the new sites already opened this year, the only one outside California places Costco in a new market—Honolulu. Costco is the first membership warehouse club to enter the 50th state, so the company's initial ads not only announced the opening but explained the concept.

While adding a new market this year, Costco is also continuing to roll out its pharmacy departments. The company currently operates pharmacies in 18 warehouses and expects to have them in 23 to 25 by December. In order to reduce personnel costs, Costco is initially operating the pharmacies in its West Coast locations.

Costco has also experimented with optical centers, with four currently operating, but there are no immediate plans for this department's expansion.

The most recent financial results for the company showed its sales had climbed to $875 million after its first six months of fiscal 1988, an increase of some 58 percent over the same period in the previous year. Net income of $10 million during the first six months was also up substantially over the previous year's total of $1.69 million.

Costco

	1987	1986	% Change
Sales (In Millions)	$1,370	$747	83.4%
Earnings (In Millions)	5.3	4.5	17.8
Stores	43	38	13.2

Source: DSN *research*

At the same time these results were reported, Costco also announced the launching of its preferred member credit card, following in the steps of other warehousers like PACE, Buyer's Club and Price Savers.

Initiated first in the Pacific Northwest, the card was rolled out in all warehouses last month, is available only to business and Gold Card members and costs $15.

Seattle First National Bank, the card's sponsor, isn't charging Costco a merchants' fee.

Costco ranked No. 3 among warehouse clubs with 43 stores and $1.4 billion in revenues ($1.37 billion in sales, $30 million in membership fees). (DSN photo)

ANNUAL REPORT CIRCUIT CITY

Circuit City Still Shining in Lackluster CE Market

RICHMOND, Va. — After its blitz of Los Angeles in 1986, Circuit City encored in 1987 with an eight-store invasion of San Francisco. Sales at the country's leading home electronics specialty retailer increased from $1.1 billion in fiscal 1987 to $1.35 billion.

Net earnings rose from $35.3 million to $50.4 million, a 43 percent jump. According to the company, this marks five consecutive years of record earnings, and Circuit City has, according to its annual report, "provided the highest return to investors over five years of any company listed on the New York Stock Exchange."

The company also noted that other companies in roughly the same bracket, Toys "R" Us and Home Depot, were similar to Circuit City in that all three are "innovative, intensely merchandised store formats, [bringing] unprecedented selection and value to consumers in previously inefficient retail segments."

Circuit City's performance is particularly notable when contrasted with the home electronics field as a whole. With the exception of compact disc players, sales have been stagnant or down in virtually every product area, and several large CE chains, most notably New York-based Crazy Eddie, are in trouble. In an uncertain economic climate, consumers tend to forgo luxury items, and additional audio and video equipment tops that list.

With that in mind, industry analysts predict a very modest 2 percent increase in CE sales for this year and most retailers plan on, at best, limited expansion.

Circuit City, on the other hand, plans to add 20 stores to the 105 it already operated at year-end, including outlets in Florida, Northern California and Nevada, all new markets. Plans have also been made to open a new distribution center.

So for this year, with only two new outlets open, sales continued to grow. First quarter sales were up 33 percent to $326.1 million and May sales jumped 31 percent over last year to $121 million. If, as analysts have predicted, a slump is in store for the industry leader, the time has evidently not arrived. Comparable store sales during the first quarter were up a healthy, if less than dazzling, 5 percent, dipping to 4 percent in May.

According to the company's president, Richard Sharp, Circuit City believes it can grow to about $4 billion. A key to that growth is its superstore format, which has seen the company replace small 10,000-square-foot outlets with far larger 32,000-square-foot stores. As it opens more superstores and converts or replaces older ones, the gross sales per store will naturally grow. At year-end, 76 of the 105 stores were superstores.

Perhaps due to the explosion in consumer electronics over the past few years, a slump over the next year or two is almost inevitable. At the Chicago CES expo last month, truly new products were few and far between.

Many smaller retailers were under the impression that new compact disc recorders would be available in the near future; however, the technology, presently being developed by Tandy Corp., is at least two years away.

Likewise, the announcement that Teac will introduce digital audio tape recorders to the American market this month was met with far more press attention than dealer interest. The handful of machines scheduled to go on sale will retail for more than $5,000, and widespread availability of digital audio tape recorders in a more affordable price range is probably two or three years away.

That leaves one exciting product, Sony's 8mm personal video player. With over 1,000 movie titles now available, and a lot more due to be released, this product could turn out to be the Walkman of 1989. However, there are questions regarding availability and the price point (over $500) may be too high for most consumers.

For now, Circuit City's growth will continue to be primarily at the expense of its competitors, as it moves into new markets and expands in older ones. However, other regional chains are also growing, and traditional discount stores seem poised to jump back into consumer electronics, which means the market is going to be a lot tougher through the next year or two than it has been in recent years. Circuit City will continue to grow; the question is "how much?"

Circuit City posted its fifth consecutive year of record sales last year. Despite a second-half slowdown in the market, net earnings increased 43 percent.

Circuit City

	1987	1986	% Change
Sales (In Millions)	$1,350	$1,011	33.5%
Earnings (In Millions)	89.2	71.5	24.8
Stores	105	87	20.7

Source: DSN *research*

Rose's Hangs Tough as Competitors Invade Its Southeastern Markets

HENDERSON, N.C. — Rose's Stores faced 56 new challenges during 1987, and there is no reason to think this year will be any easier.

A trio of new general merchandise managers and a new vice president of merchandising were among the changes made during 1987 to meet the new competitive challenges.

"During 1987, 56 of our stores had a new competitor in its market for less than a year, including Wal-Mart, Ames, Zayre, Bradlees, Gee Bee, Jamesway, K mart . . ." said Jack Bush, Rose's president.

The nearly 12 percent rise in sales and 3.2 percent same store sales increases were achieved despite this mounting competition. Wal-Mart is quickly becoming Rose's most formidable competitor. The nation's No. 2 discounter opened 47 stores in Rose's markets in 1986; by the end of 1987 that figure had risen to 73 of the chain's 237 locations.

Despite rising sales, earnings before income taxes dropped about 28 percent to $31.6 million from $43.6 million. Competition no doubt played a roll in the earnings drop, but other factors also had a one-time negative effect on the income.

Bush said that 1987 earnings at Rose's were considerably impacted by a $5 million LIFO charge. The Southeastern chain is also in the middle of an extensive expansion and remodeling program; 205 of the 237 units have either been opened or remodeled within the last five years, Bush said.

Other expenses incurred during the year included 23 new store openings and six older stores closing or being replaced with an equal number of larger replacement sites. Also, Bush said the chain's 850,000-square-foot distribution center is in the final stages of a systems renovation which will result in a fully automated distribution center within the year.

All of these investments were part of the chain's efforts to fortify itself against the steady influx of competition, Bush said, as is the company's investment in its merchandising and store level people.

Among the headquarters additions during 1988 were: Bob Floum, vp, merchandising; Doug Harris, apparel, gmm; Gary Hanson, hard lines, gmm; and Bob Sasser, home lines, gmm. "We intend to build the best merchandising team possible," said Bush.

The three gmms also signal a change in Rose's merchandising approach. Until recently, there had been two gmms, one for hard lines and one for soft lines.

Many have determined that sales growth in home fashions and apparel could be further exploited by recognizing the interrelated nature of soft lines merchandise, such as domestics, with hard lines departments, like housewares.

In addition to headquarters personnel shifts, there have been staff changes at the store level.

Bush said that Rose's has been keeping a close watch on the store level "team" that is up against new competition.

"We start looking at the management staff ahead of time, before the competing store has opened," he said. Store managers are sometimes changed or specially trained in markets where new competitors have arrived.

Rose's

	1987	1986	% Change
Sales (In Millions)	$1,337	$1,199	11.5%
Earnings (In Millions)	31.6	43.6	(27.5)
Stores	237	222	6.8

Source: DSN research

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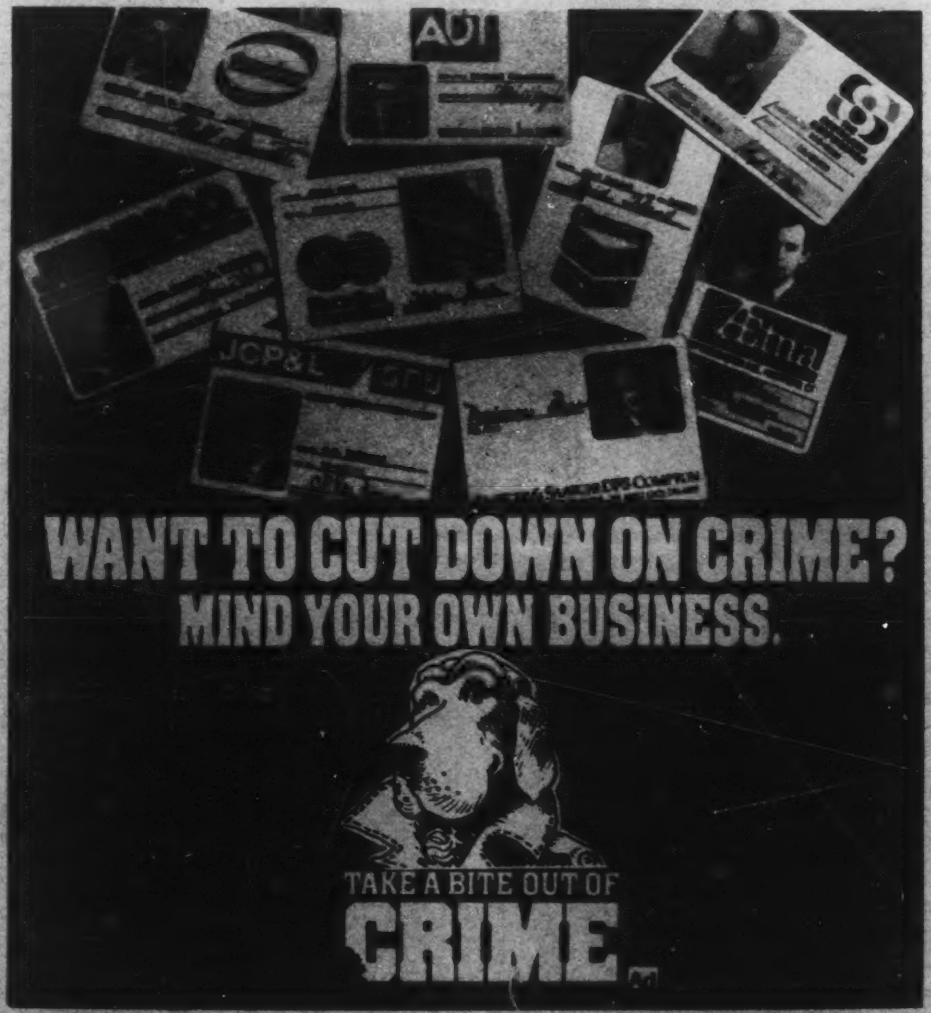

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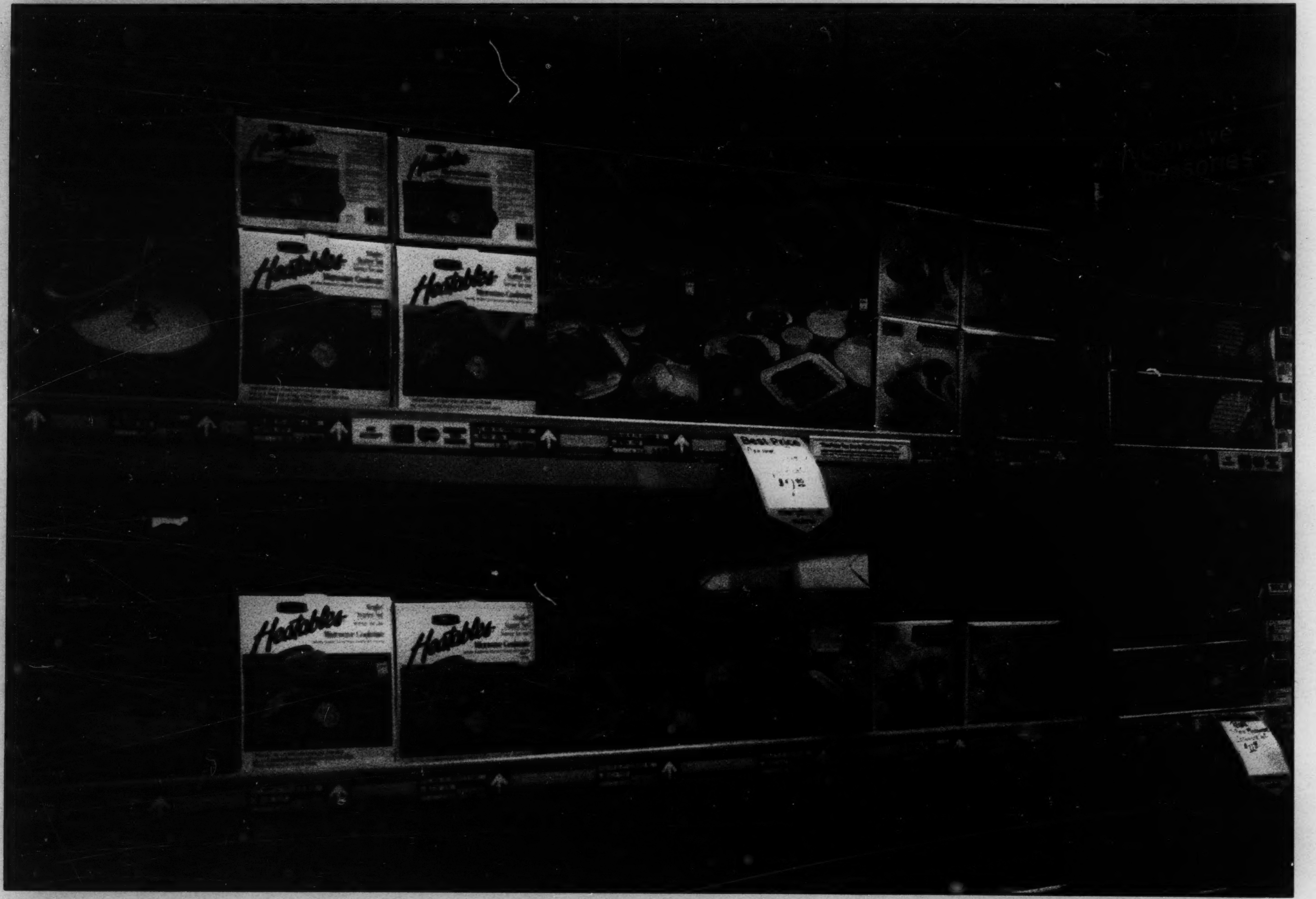

Microwave cookware sales are strong despite microwave oven market saturation, according to a recent DSN *study. (Makro, Cleveland.)* (DSN photo)

Discounters Favored for Microwave Cookware

By Mary Ellen Kelly
Nationwide DSN Report

Discount department stores in particular are positioned to benefit from rising sales of microwave cookware and accessories. The discount department store was singled out by nearly 40 percent of U.S. consumers who own or plan to buy a microwave oven as the preferred outlet of choice for making microwave cookware purchases, according to a survey conducted for *DSN* by the Chicago research firm, Leo J. Shapiro & Associates.

Thirteen percent of that consumer group specifically cited K mart as their store of choice, while 11 percent named Sears, Roebuck & Co.

Retail buyers and vendors asked by *DSN* to comment about the study's findings agreed that while demand is not quite as strong as it was in the past, the market for microwave cookware is far from saturated.

Demand is especially high among consumers under the age of 35. The older the shopper, the less likely she is to need additional cookware pieces, the study showed.

About 40 percent of microwave oven owners said their cookware collection is not yet complete. Of those, nearly 60 percent expect to purchase their cookware collection piece-by-piece rather than as a set.

Harry Fishman, president of Eagle Affiliates, the Brooklyn, N.Y.-based microwave cookware supplier, said that his company has found that individual pieces outsell prepackaged sets by a ratio of 6-to-1.

As a result, Fishman is phasing out some of the company's boxed sets. "Sets are an old-fashioned way of marketing the product. Now we have individual pieces in sleeves that cover only about 25 percent of the product. Sales have been tremendous compared to boxed cookware sets," he said.

Noreen O'Reilly, buyer for Jamesway, the Secaucus, N.J.-based discount chain, said the retailer still stocks some sets, but is concentrating on open-stock microwave cookware in its 12-ft. department.

O'Reilly has tailored Jamesway's assortment to the shopper who is now aware that her microwave oven does not require highly specialized cookware, and who will not pay prices that are higher than conventional oven cookware.

"A year ago the price range was $8 to

(Continued on page 161)

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Discounters Preferred for Microwave Cookware

(Continued from page 159)

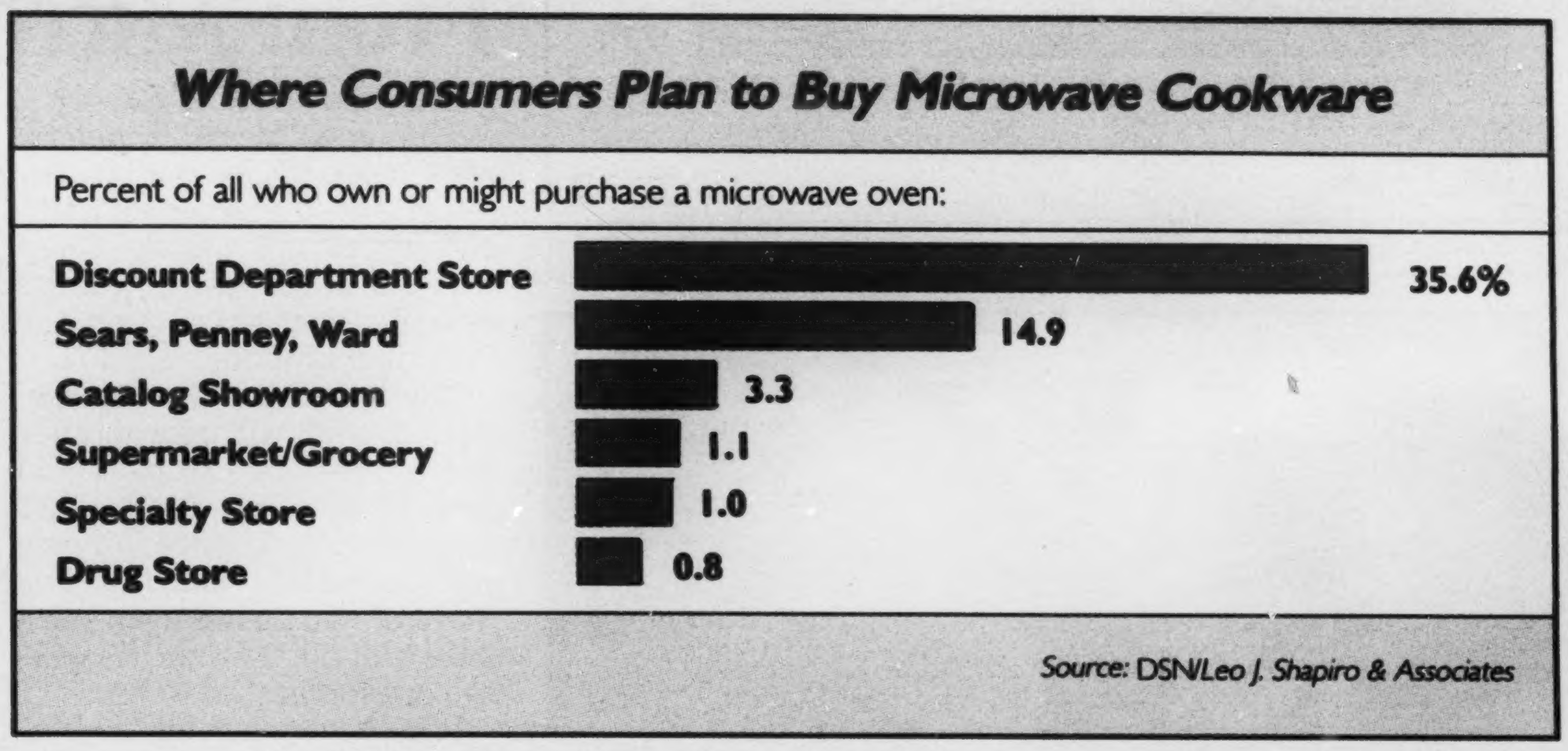
$20 and now it is $2 to $14," O'Reilly said. Department sales increases were double-digit last year, and are expected to be in the 10 percent to 20 percent range again in 1988.

Cookware sets were also among the sku's eliminated at Ames Department Stores when the Rocky Hill, Conn.-based discounter decided in April to cut the department in half, from 16 running feet to 8 running feet.

If a retailer's assortment is predominantly plastic, he is missing the majority of his sales opportunities, the study indicated.

"Microwave accessory sales have been very soft for us in the past year or so," said Jim Aglio, Ames vice president, general merchandise manager, home furnishings. "One explanation is that the customer realizes she doesn't have to buy specialized housewares to use in the microwave, another is saturation."

If a retailer's assortment is predominantly plastic, he is missing the majority of his sales opportunities, the study indicated. Glass is the preferred cookware material, and represents the only microwave cookware where there is considerable brand preference, according to the survey.



Source: DSN/Leo J. Shapiro & Associates

Fifty-five percent of consumers said they preferred glass cookware when compared to a third of respondents who opted for plastic. When asked about disposable cookware, 35 percent said they might buy some in the future.

Corning Ware and its Corelle and Visions brands were mentioned by 25 percent of all respondents who own or might buy a microwave oven, as the brand of cookware they would choose. Several other brands were mentioned including Pyrex, Tupperware and Rubbermaid, but each of them generated less than a 5 percent response rate.

Al Donnelly, spokesman for Corning Glassworks, said the company's launch of its single-serve Visions cookware line is meant to further develop its microwave user business.

Clover offers shoppers glass cookware marketed for microwave oven/storage use. Among consumers looking to buy microwave cookware, glass is preferred.

Discounters like Venture, Kansas City, Mo., were the preferred retail outlet among consumers who were in the market to purchase microwave cookware.

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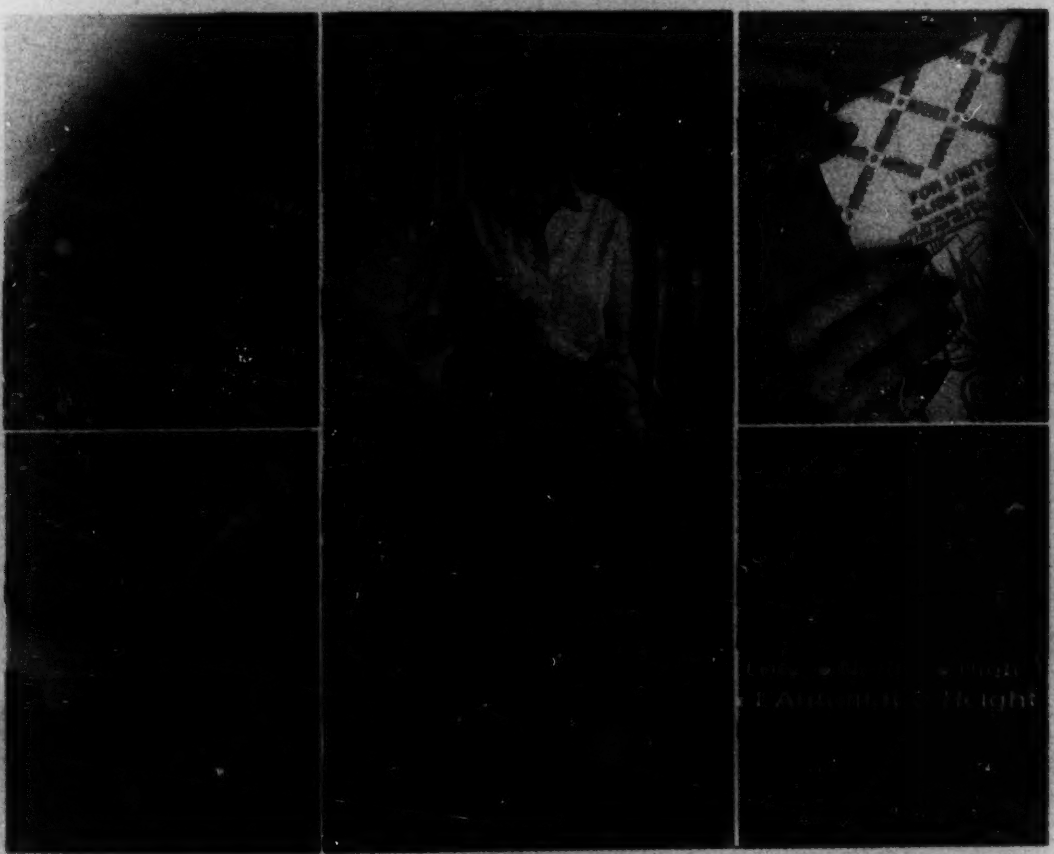
Microwave cookware sets, like these at the Martha Stewart Kitchen Korner, K mart, Atlanta, are losing favor to individual pieces. (DSN photos)



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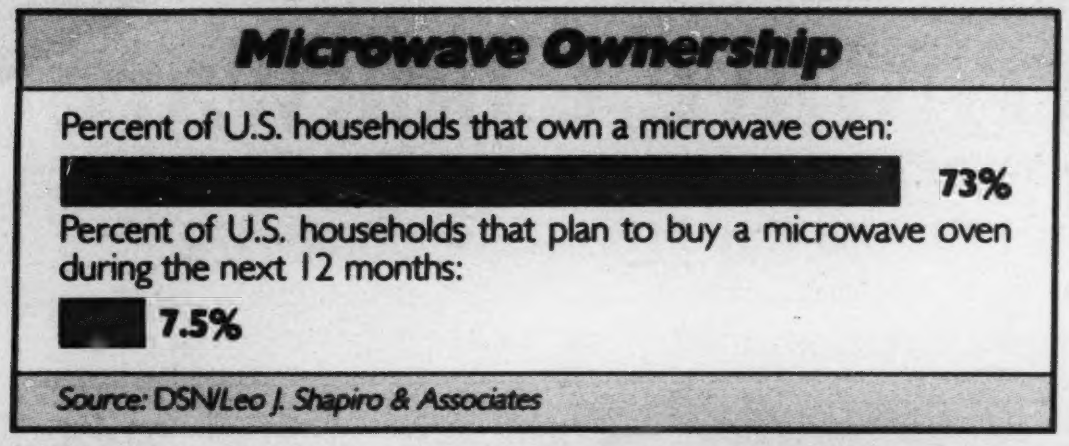
Discount Stores Should Benefit Most From Microwave Replacement Sales



Source: DSN/Leo J. Shapiro & Associates

FITTING ROOMS

Full size, higher-ticket microwaves like these at Carrefour, Philadelphia, will be preferred by second-oven shoppers. (DSN photo)

Nationwide DSN Report

The good news in microwave ovens: there is a healthy replacement market simmering, especially among those who did not invest in a large capacity microwave oven the first time around.

The bad news: the replacement market will take another five to ten years to peak and until then, while the market for first-time buyers is nearing saturation. The last two years of microwave oven sales were a lot better than the next two are forecasted to be.

Whether consulting the statistics prepared by the Association of Home Appliance Manufacturers, or talking with microwave oven vendors and discount retailers, this consensus emerges: market saturation is not far away; those interested in becoming two-oven owners are limited; and the replacement market probably won't heat up for another five to ten years.

Research conducted in May for *DSN* by the Chicago-based research firm, Leo J. Shapiro & Associates, revealed that 73 percent of U.S. households presently own a microwave oven, up from 56 percent two years ago.

While that still leaves 27 percent as perspective buyers, 19 percent of the survey population—450 households—said they have no interest in owning a microwave oven, leaving the industry just 8 percentage points from total penetration.

Discounters were not selected as the preferred choice of leading retailers for microwave oven purchases, mentioned by only 16 percent of respondents who said they will buy a microwave during the next year. Six percent mentioned catalog showrooms and 7 percent mentioned conventional department stores.

In comparison, about 25 percent planned to buy a microwave at Sears—which was one of the few retailers mentioned by name. Another 25 percent would shop at an appliance specialty store, or appliance superstore.

One out of 6 looking to buy a microwave are undecided about where to shop.

No doubt the temptation among full line discounters would be to drastically pare the store's oven assortment, but industry sources suggest that maintaining adequate visibility in microwave ovens now will pay off in the future.

Replacement Models

When looking for a replacement model, these educated consumers will no longer need the guidance of a specialty store, but will go to the discounter for sharp prices.

Steve Sherman, national sales manager, Sanyo, said that despite a flattening and possibly declining microwave oven market, discounter sales have the potential to climb.

"Consumers used to go to a specialty store, but people are highly familiar with microwave ovens now. It can become a larger category for the mass market. The mass retailers' segment of market does not need to be as impacted."

The *DSN* study indicated that price has become more of an issue among consumers. On average, survey respondents expected to pay $291 for a microwave compared with $379 just two years ago.

Most of those interested in buying a microwave during the next 12 months expect to buy a full-size model, especially as a replacement oven. About 25 percent are looking to buy a mid-size. One out of 8 are shopping for a compact model, especially first-time microwave oven buyers.

Sherman said Sanyo's research estimates a 50 percent to 60 percent market saturation in microwave ovens, but is uncertain what that bodes for the future. "Will a microwave oven be like a refrigerator where 98 percent of households have one? Or closer to 70 percent like a washing machine? No one knows for sure."

Craig Schultz of the AHAM's market economics department said the association estimates that market penetration is currently 70 percent or more.

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Harts Opens Hypermarket in Ohio

(Continued from page 1)

had all the expertise it needed already within its organization, it made sense to develop a Big Bear hypermarket concept, Godfrey explained.

"When you walked out of that IMRA convention, you shook your head and thought, 'I'd really better start thinking about hypermarkets.' Right now hypermarkets are only in larger cities, but that doesn't preclude anybody else from going to smaller markets [like many Harts stores.]"

Shoppers were told that Big Bear Plus is "A Whole New Animal," and that the company "combined the best of Big Bear and the best of Harts," when designing the new store.

Unlike other hypermarkets, such as Wal-Mart's Hypermart USA, Big Bear Plus has not sacrificed merchandise variety for depth in most departments. While Wal-Mart may have eliminated sku's that were not the top sales leaders (as it does in its Sam's Wholesale Clubs), Big Bear Plus stores currently offer the same assortment of merchandise as Harts discount stores.

The Columbus-based company made these changes at the two Ohio stores:

- Removed the wall separating its grocery and general merchandise operations;
- Lowered margins on general merchandise by 4 percent to between 26 percent and 27 percent on general merchandise, with a smaller margin reduction in food departments;
- Eliminated all duplication of product that existed between Harts and Big Bears in departments such as health and beauty aids, snack foods, housewares and alcoholic beverages;
- Combined general merchandise and food checkout registers;
- Installed a neon "Express" fixture over two cash registers for cash-only and limited-item purchases;
- Extended everyday store hours to 7 a.m. to midnight (formerly store hours were 9:30 a.m. to 9:30 p.m.).

Further alterations to be made at the Wintersville and Bridgeport stores during the year include the addition of departments such as seafood, bulk foods and cheese shop, as well as the movement of bakery and alcoholic beverages and other food departments to different areas within the food portion of the store, Godfrey said. Unlike most full-fledged hypermarkets, there are no plans to add freestanding service departments to the format, other than a hair salon.

During the next year freestanding fixture walls will also be brought in, he said, to help "departmentalize" certain areas and "better define certain merchandise categories," while still being modular.

He also noted that the 100,000-square-foot Bridgeport store and the 140,000-square-foot Wintersville store devote roughly 35 percent of space to food and 65 percent to general merchandise, but the goal is to adjust the assortment over time to 40 percent food and 60 percent general merchandise.

The two Plus stores are among the six locations with general merchandise that have scanning capability. The company is comparing an NCR and an IBM model.

The two Plus stores just opened are equipped with the NCR 7000. In addition to totaling the sales, it provides two subtotals for food and general merchandise. This way consumers can opt to use a charge card for general merchandise purchases, while paying for food in cash. (Food cannot be paid for with charge cards at Plus stores.)

Godfrey expects that all Harts (and Big Bear Plus) stores will have scanning capability by this time next year.

The company's 62 Big Bears and 32 Harts stores share seven common sites. To date, there are no other plans to convert more than the shared sites at Wintersville and Bridgeport into Plus stores. Another Plus store is scheduled to open next year, said Godfrey. He would not comment on whether that would be a store conversion or a newly constructed site.

The decision to develop its own type of hypermarket actually arose from the poor performance at single pairs of neighboring Harts and Big Bear stores in Lebanon, Ohio, according to Godfrey.

After taking several approaches to solving the poor sales performance of the stores, the company decided to see what would happen if the two were joined and had a common bank of cash registers. Operating under the name Savings Mart, the "new" store became a success. Savings Mart will officially become a Big Bear Plus sometime next month.

Alert Cashier Stymies Fraud Ring

(Continued from page 3)

cion because they were cashing four and five at a time.

In the Portland case, police on May 11 arrested Alfred McVay, 49, of Portland, a printer for a chain of printing shops called Print Right, and charged him with forgery, said Dave Mishke, a Portland police fraud detective.

McVay admitted cashing the gift certificates but denied printing them, Mishke said. He claimed that he found them in a downtown garbage can, the detective said.

When police took McVay's arrest mug shot, he was wearing a T-shirt advertising Print Right.

On another security front, Fred Meyer plans late this summer to start giving all prospective employees written psychological tests, so-called "honesty tests."

Fred Meyer, which operates 91 large stores, plus 10 smaller specialty stores, has given verbal agreement to use the pre-employment screening test from Orion Systems, Tulsa, Okla., Boley said. In addition, the chain has been testing an honesty test from American Testcor, Portland, and may use both, he said.

Fred Meyer has about 17,000 employees , including full- and part-time workers.

Moreover, Fred Meyer is testing in Salt Lake City and Portland another Orion written test it calls CLUE (Case Lead Under Evaluation).

Orion has developed the test in expectations it will replace the now-banned lie detector test in investigating retail thefts. Several years ago, Fred Meyer occasionally used lie detector tests, but not in recent years, Boley said.

As well as questions about attitudes of would-be employees regarding theft and honesty, the Orion test also is designed to determine attitudes about work and supervisory potential and views on drug and alcohol use, said Laurie Dwyer, national accounts manager.

Accordingly, Orion prefers the term "pre-employment survey" over "honesty test," she said.

Instead of yes or no answers, the test asks job applicants to rate on a scale of 1 to 10 whether they totally agree or totally disagree with statements such as:

- "A person who steals should be exposed in public,"
- "If a person is caught stealing from a company, in some instances, he should be given another chance."

Orion claims that such questions succeed 95 percent of the time in identifying bad candidates. Depending on volume, the cost for the test ranges from $6 to $9.

Orion promotional brochures list Wal-Mart, Sam's Harts and Hills as among the discounters using the company's pre-employment test.

Before agreeing to go with Orion, one of several major competitors in honesty tests, Fred Meyer checked with other users and found its test has a good reputation, Boley said.

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Vol. 27, No. 14 July 4, 1988

Brokers Want To Give Regional Marketing Support To Retailers & Manufacturers

Grocery product buyers for nonfood chains often rely on brokers to obtain product and information from grocery product manufacturers.

Now a new survey suggests that brokers, who traditionally have performed primarily as manufacturer sales representatives, will have a broader role to play in helping manufacturers better service their retail and consumer customers.

According to the survey, which was recently sponsored by the National Food Brokers Association, many brokers today are expanding into regional marketing programs that are designed to improve the retail sell throughs of the brands and products they broker.

The survey revealed that 81% of all manufacturers and 92% of all brokers believe that brokers should be involved in the regional marketing of their client's products.

The survey also showed that currently 81% of all brokers say they are involved in regional marketing of dry groceries while 22% are involved in the regional marketing of non-food groceries like pet foods and paper supplies. 24% of the brokers also said they are involved in the regional marketing of household cleaners.

The above chart gives an example of how much more involved today's brokers are becoming in regional marketing.

Marketing Services Added by Brokers in Last Two Years

Services	% of Brokers who added this service in the past two years
Increased retail coverage	76%
Regional marketing advice to manufacturers	75
Developing local trade promotions	72
Computer reporting systems	71
Event marketing	68
Computer order/entry systems	64
Market research/analysis	50
Computerized planograms	5
Other	15

Source: National Food Brokers Association

Consumers Sweet Tooth Keeps Them Hooked On Candy

What makes candy such a profitable category in today's retail marketplace.

Well, it seems to be one of those things that consumers just can't do without. According to the latest statistics, 90% of all U.S. households buy candy.

The frequency of purchases breaks down this way:

- **9% of all adults buy candy daily**
- **56% buy it "at least" once a week.**
- **31% buy it less than once a week, but at least once a month.**
- **And 13% buy it less than once a month.**

Source: Opinion Research Corporation

m&m's
m
Nestle
chocolate with Almonds

65% Of All Teens Drink One Soft Drink A Day Most Tell Their Parents The Brand To Buy

Teenagers are big spenders in todays affluent youth market. Not too surprisingly, one of their favorite purchases is soft drinks. However, have you ever wondered how many teenagers consume soft drinks and how often.

TEEN Magazine was recently curious about that so they did what their editors call a "soda quota" special market research survey.

Here are their findings from a survey that was done last Fall.

- 65% of all teenagers enjoy a soft drink "at least" once a day.
- 41% quench their thirst with a soft drink more than once a day.
- 36% prefer regular soft drinks; 26%, diet, and 36% have no preference.
- Of those that prefer regular soft drinks, 59% are weight watching.
- 69% of those who prefer regular soft drinks think they taste better.
- 53% say either they themselves or their parents bought the soft drinks. Of those that said their parents were the primary purchases, 82% said they specified the brands to buy.
- 94% say that soft drinks are served at teen parties; 57% said they throw two or more parties a year.
- 63% buy their soft drinks, at least sometimes, in vending machines. Only 6% said they bought soft drinks in drugstores, but 32% said they do buy them in convenience stores. 24% said they also buy soft drinks in grocery stores. Discount stores were included in the survey in the category of other.

TEEN based its findings on 475 completed questionnaires. The average age of the respondents was 15.7 years.

Ad Watch: How Drug Chains Are Promoting Foods

Starting with this issue, Fm is launching a regular ad tracking feature on promotional groceries.

The charts in this section of FM are designed to help our retail readers quickly identify some of the current trends in promoting groceries. In later issues, we hope to be able to include discount and food chains in our ad tracking reports.

We recommend that you use these charts as a tool for measuring and evaluating your current advertising strategies relative to the national market.

At a glance, you should be able to see if your own ad programs include the most frequently advertised brands within the food category.

You should also be able to identify categories where the pricing competition is particularly intense, and that will give you the option of deciding whether you want to "bang heads" with other chains on these categories, or back away from advertising them until the pricing competition eases off.

Comparison of Chain Drug Store Ad Prices For Food Products*

Brand	Size	Chain	Ad Price	Market
Coca Cola	2 liter	Dart Drug	99¢	DC
Coca Cola	2 liter	Rite Aid	$1.15	Pa.
Coca Cola	6 pack	Super D	$1.59	Tenn.
Coca Cola	6 pack	Rite Aid	$1.75	Pa.
Frito Lay	7 oz. chips	Pic N Save	79¢	N. Fla.
Frito Lay	7 oz. chips	Medic Discount	89¢	Ohio
Geisha	6.5 oz. lgt. tuna	Osco	2/99¢	LV
Geisha	6.5 oz. lgt. chunk tuna	Walgreen's	2/$1	Ill.
Nabisco	18 oz. Chips Ahoy	Pay Less	$1.99	Ca./Ore.
Nabisco	18 oz. Chips Ahoy	Bud's	$1.89	DC
Pepsi	2 liter	People's	99¢	DC/Ind.
Pepsi	2 liter	SupeRx	99¢	Ohio
Pepsi	6 pack	Walgreen's	$1.49	Ill.
Pepsi	6 pack	Longs	$1.69	Ca.
Planters	Cheez Balls	Walgreen's	79¢	Ill.
Planters	Cheez Balls	People's	89¢	DC

+Ad Tracking for the months of September and October 1987
Source: Vereen & Associates
*Print ads only

Chain Drug Stores: Most Frequently Advertised Food Brands

Brands	Category	% of all Food Ads**
Pepsi Cola	Soda	4.1%
Coca Cola	Soda	3.2
Frito Lay	Potatoe Chips	2.6
Nabisco	Cookies/Crackers	2.6
Geisha	Canned Fish/Canned Foods	1.1
Planters	Chips Snacks	1.1
Orville Redenbacher	Popcorn	0.8
Total as a % of all Food Ads		15.5

+Ad Tracking for the months of September and October 1987
Source: Vereen & Associates
**Print ads only & does not reflect size of feature ads

Chain Drug Stores: Most Frequently Advertised Food Categories

Product Category	% of total food ad space in chain drug print ads
Soda	8.6%
Cookies	3.7
Potatoe Chips	3.7
Corn Chips/Cheese Balls/Pretzels, etc.	2.5
Fruit Drinks/Juices	1.9
Popcorn	1.9
Ice Cream/Sherbet	1.8
Candy	1.7
Canned Fruit	1.7
Crackers	1.4
Canned Fish	1.3
Total as a % of all Food Ads	30.2

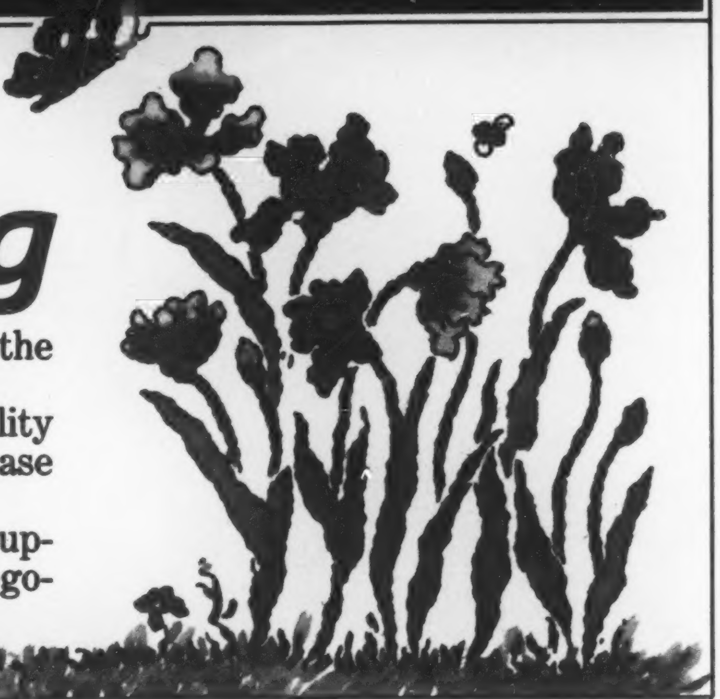
+Ad Tracking for the months of September and October 1987
Source: Vereen & Associates

The information in this survey is based on an ad tracking service developed by Vereen & Associates, Indianapolis.

Vereen covers 100% ad activity in 40 drug store product categories.

The service now monitors the print ads of the industry's 30 highest volume drug chains.

Best Selling Categories of Spring



The chart below lists the best selling categories in food stores for the months of March, April and May.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in May, 1986.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

Foods and Groceries: Best Sellers of Spring
(Average three year index ranking)

March	
Foods	**Index Ranking**
Packaged candy covered non-chocolates	222
Packaged jellies	163
Tartar sauce	143
Diet desserts	141
Canned salmon	138
Packaged solid chocolates	137
Fruit rolls & bars	133
Dried Prunes	126
Canned hams/meats	126
Diet canned fruit	124
Packaged other chocolates	124
Canned peaches	117
Canned beets	117
Cereal meal bars	116
Gelatin desserts	116
Diet jams/jellies	116
Dried apricots	116
Honey	116
Canned spinach	115
Pizza products	114
Breading/batter mix	113
Diet canned vegetables	113
Nonfoods	
Car care products	124

April	
Foods	**Index Ranking**
Soft drink mixes	198
Iced tea mixes	153
Instant tea	153
Barbecue sauce	150
Freezer bars	149
Diet desserts	128
Canned apricots	120
Canned pears	119
Diet canned fruit	118
Canned peaches	117
Fruit rolls/bars	117
Diet canned fruit	117
Dry topping mixes	117
Dried prunes	116
Canned pineapple	112
Canned spinach	112
Diet jams, jellies spreads	111
Prepared mustards	111
Gelatin desserts	110
Grape juice	110
Nonfoods	
Insecticides	225
Insect repellents	213
Charcoal lighters	160
Car care products	151
Charcoal	143
Window cleaners	115
Furniture care	111

May	
Foods	**Index Ranking**
Freezer bars	237
Barbecue sauce	191
Relishes	173
Fruit pectin	171
Iced tea mix	164
Instant tea	159
Canned salads	158
Pork & beans	150
Soft drink mix	150
Meat sauce	131
Mustard	128
Pickles	125
Lo-cal salad dressings	123
Pourable salad dressings	123
Potato chips	121
Diet desserts	113
Juice & Juice concentrates	113
Non-chocolates	112
Canned sausages/franks	112
Nonfoods	
Charcoal	212
Charcoal lighters	210
Insect repellents	206
Insecticides	173
Car care products	145
Paper & plastic plates	140
Plastic flatware	138
Paper/plastic cups	123
Window cleaners	118
Motor oil & car additives	115
Paper napkins	110

Source: Sami Seasonality Study

Warehouse club stores appeal to businessmen, professionals and off the street consumers.

Membership Warehouse Club Sales Soaring

Sales for membership clubs jumped 31% to $10.7 billion in 1987.
Top 12 chains now account for 95% of total industry sales.

Membership Warehouse Clubs: Sales and Unit Growth
(1983 through 1990)

	Sales (billions)	Units
1983	$ 1.0	36
1984	$ 2.4	79
1985	$ 4.5	137
1986	$ 8.2	228
1987	$10.7E	325[e]
1988	$14.2P	400[p]
1989	$17.8P	505[p]
1990	$21.0P	600[p]

[e]means estimated. [p]means Projected
Source: *Discount Store News* Research

The wholesale/warehouse club industry continued to show dramatic growth in 1987.

According to the Fm's sister publication, *Discount Store News*, sales for the industry rose an estimated 31% in 1987 to $10.7 billion.

About 95% of the industry's volume is generated by the nation's dozen largest warehouse club chains, led by San Diego-based Price Club which has a 32% share of all major wholesale club chain sales.

The Top 12 chains, *Discount Store News* also estimates, now operate a total of 273 units (some wholesale club operators object to the word stores because their units perform a cash and carry wholesale service). Altogether, their unit count is up 54% over 1986.

For 1988, *Discount Store News* is estimating that the Top 12 chains will open another 60 units, for a store universe growth rate of 22%.

If the industry achieves its growth plans, and it is likely that it will, then *DSN* and *Fm* are estimating that dollar sales for all chain Membership Clubs will top $13 billion in 1988, and sales for the industry may exceed $14 billion.

Membership Clubs: The customer base and the mix

A hybrid that is partly a cash and carry wholesale operation and partly a super sized retail store, the typical warehouse club unit sports a mix that includes edible- and non-edible groceries, health and beauty aids, apparel and other softwear, and a variety of hard line items ranging from televisions and stereos through tires and such gadgets as electronic garage door openers.

The customer base is predominately small business with off-the-street consumers usually making up about 30% of a typical wholesale club's customer mix.

Sometimes, however, the customer mix can be more in the vicinity of 50% small businesses buying on a cash and carry basis and 50% off-the-street customers buying case loads of low- to mid-ticket items and singles of high-ticket items like televisions.

Margins average about 10%

Mark-ups in a typical Warehouse Club are typically low to generate turns. Most Clubs say they charge wholesale prices plus a small mark-up of approximately 5%. Profit margins generally average about 10% overall.

Most Clubs also charge members a fee to join as well as an annual fee to remain a member. Most Clubs usually insist on cash payments rather than checks or credit cards.

The typical club also has a mix of about 3,500 to 4,000 sku's and generally turns its inventory between 12 and 20 times a year.

Who's Who In Membership Clubs

The leading chain in the segment is still Price Company, whose founder Sol Price opened the first membership club in San Diego, California back in 1976.

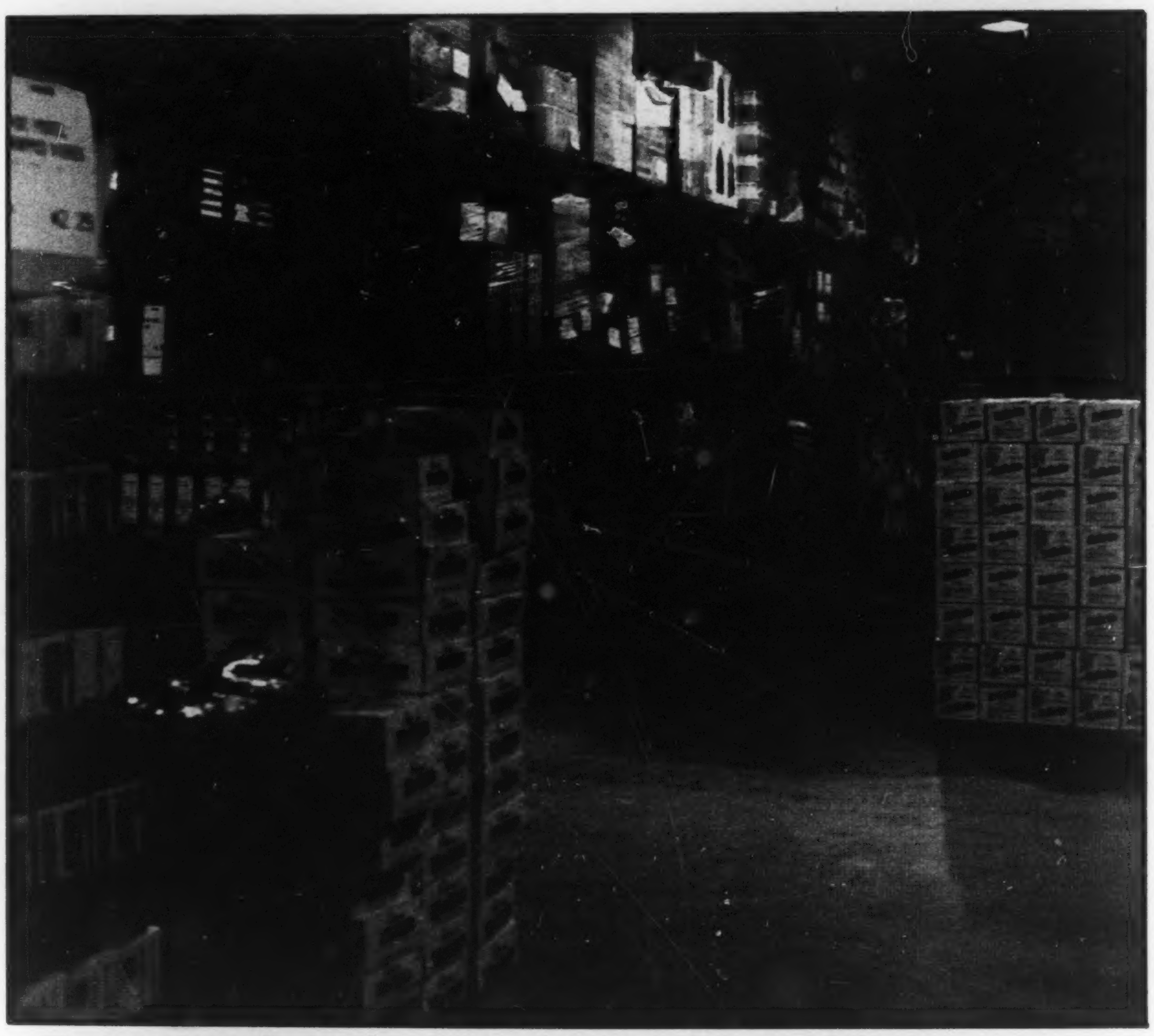
However Sam Walton who founded the Wal-Mart chain is fast moving up from second place and it looks like his Sam's Wholesale Clubs, based in Bentonville, Ark., may overtake the Price Clubs for the number one spot either later this year or sometime in 1989.

In 1987, Price Club generated approximately $3.2 billion in sales, up 25% over last year. Their unit count rose from 27 to 37 and they are planning to end 1988 with 41 units.

Sam's Wholesale Clubs now numbers over 84 units, an increase of 71% over last year. Walton says his chain will probably end the year with about 102 units.

In 1987, Sam's Wholesale Clubs generated $2.67 billion in sales and had a market share of 26% among the Top 12 chains. Their sales were up 59% over last year.

Costco, based in Seattle, Wash., is in third place with a 13% share of all chain sales. Their 1987 sales were up 83% to $1.37 billion, while their unit count was up 95% to 43 units. They plan to end 1988 with 55 units.



The interiors of most warehouse club stores are stark. Merchandise is usually displayed on pallets, in cut cases or on warehouse shelving.

Colorado-based PACE is in fourth place with sales of $939 million and a share of 9%. Their sales were up 58% in 1987, and they now have 33 units compared to the 25 they had last year at this time. They plan to open another three units before the end of 1988.

Massachusetts-based B.J.'s is now in fifth place with estimated sales of $575 million, up about 63% from 1986. They now have about a 6% share with just 19 units, up from 15 in 1986. Their management plans another four units for 1988.

Makro, Cincinnati, Ohio moves up from seventh to sixth place this year. They have a 3% share with four stores.

Makro didn't open any new stores in 1987, and their sales were relatively flat, inching up about 7% to an estimated $310 million, according to *Discount Store News*.

They do plan three more stores for 1988, however.

Price Savers of Salt Lake City opened six units in 1987 and generated sales growth of 72%. They're nearly tied for seventh place with Makro, according to *Discount Store News*' estimates, and they also have a 3% share of sales.

In 1987, *DSN* estimated their total sales at $310 billion. They plan a nother six stores for 1988.

The Wholesale Club in Indianapolis is also close to a tie for seventh place. With four new stores opened in 1987, they generated sales of nearly $272 million, up 72% from 1986. (See our Winter *Fm* issue for a profile of The Wholesale Club chain.)

In tenth place among the Top 12 is Illinois-based Warehouse Club. They opened two units in 1987 for a total of 12 and have no more units planned for 1988. Their 1987 sales were up 45% to $228 million.

Texas-based American Wholesale with four stores doubled its sales in 1987 to $100 million. They only had two stores in 1986 and they plan to have six altogether by the end of 1988.

Idaho-based Club Wholesale is in twelth place with an estimated $70 million in 1987 sales. They opened two stores in 1987 for a total of six and plan two more for 1988.

Altogether, these 12 chains generated about $10.2 billion in sales in 1987 from a universe of 273 stores.

Discount Store News is estimating that by 1990, there will be about 600 units in this industry and sales will exceed $21 billion.

Who's Who In Membership Warehouse Clubs

(Top 12 chains by dollar volume: millions)

Chain/Company HQ	1987 sales	% chng vs '86	Total Units	% chng vs '86
1. Price Club San Diego (Price Company)	$3.236	25%	37	37%
2. Sam's Wholesale Club Bentonville, Ark. (Wal-Mart)	$2.670	59	84	71
3. Costco Seattle, Wash.	$1.370	83	43	95
4. PACE Denver, Col.	$ 939	58	33	32
5. B.J.'s Boston, Mass. Wholesale Club (Zayre Corp.)	$ 575+	64	19	27
6. Makro Cincinnati, Oh.	$ 310+	7	4	0
7. Price Savers Cincinnati, Oh. (Kroger)	$ 300+	72	12	100
8. The Wholesale Club Indiannapolis	$ 272	72	15	369
9. Warehouse Club Niles, Ill.	$ 228	45	12	20
10. Buyers Club Englewood, Colo.	$ 120+	50	5	33
11. American Wholesale Richardson, Tex.	$ 100+	100	4	100
12. Club Wholesale Medidian, Idaho	$ 70	75	6	77

+ *Discount Store News* estimates

Source: *Discount Store News* Survey and annual reports

K mart enters the fray

In February of 1988, K mart came into the wholesale club picture by acquiring a controlling interest in Makro. Makro currently has over a dozen units on the drawing board for next year, and K mart has said that it wants to have about 20 units by 1990, and that includes opening several new markets in the northeast and the upper midwest.

In an unrelated diversification, K mart is also in the process of developing a hypermarket. Wal-Mart, K mart's biggest competitor, currently operates two hypermarket prototypes: Super-Center and Hypermarket USA.

Groceries are an important category in hypermarket stores just as they are in wholesale/warehouse clubs, and K mart is said to have been attracted to Makro because 50% of their sales are in grocery categories. (See the Winter, 87 *Fm.)*

Wal-Mart, of course, is very close to becoming number one wholesale club operator with Sam's.

K mart says it wants to have 20 Makro units by 1990, but Wal-Mart already has 84 Sam's and it plans to have over 100 units before the end of this year.

Wal-Mart has already become the first wholesale chain to break the 100 unit (store) mark.

Marketing changes

In terms of positioning themselves to customers, the wholesale clubs still seem to be following two major thrusts: some chains are trying to beef up their wholesale businesses so they can back away from their retail customers who spend less per visit than wholesale customers. Meanwhile others, like Makro, are adding more service departments to enhance their appeal to retail consumers.

Makro, for example, is adding service bakeries and deli sections to its current clubs, and will include these departments in all new stores.

The Wholesale Club, on the other hand, is looking for ways to provide more service to the small business customer or to the professional doctor, dentist or veterinarian who needs to buy office supplies and other stables in relatively large quantities.

Their management tells *Fm* that they believe volume is the key to a successful wholesale club operation and they say they do not want to tie up their registers with a $20 or $40 purchase when a small business customer will spend $400 to $700 in one visit.

Price Club, too, is trying to enhance its image as a business-oriented club. Price now considers individual professionals and contractors as small businesses, and as such, they are entitled to their own membership cards rather than group memberships.

Price is also, however, moving to expand its mix into categories that will appeal to off-the-street consumers. Right now, they have optical centers in 11 stores and tests of a gas station and pharmacy are underway.

Sam's is also trying to up the volume in its stores including the 18 Super Savers it purchased in mid 1987. The typical Sam's averages about $50 million a year in sales, far less than the $100 million that the typical Price Club can generate.

Costco is also going after more off-street traffic by rolling out an expanded offering of fresh meats and produce. Last year, Costco also expanded pharmacies and began installing optical centers.

Some chains are also experimenting with credit cards. Buyers Club now accepts bank cards in what is an obvious move to appeal to retail customers, and PACE is testing its own credit card in some markets. Price Savers also has a company credit card.

It's clear that many wholesale club operators think they can get the dollar volume they need by being both a service wholesaler and a service-oriented retailer.

Grocery Sales up 51% in Warehouse Clubs Last Year

Growth is the result of refinements in the product mix and of a stronger marketing directed at small businesses and food service operators

Groceries account for approximately 50% of all warehouse club sales.

The wholesale/warehouse club industry did a booming business in grocery products in 1987, and from all indications 1988 is going to continue to be strong.

According to Fm estimates, based on an analysis done by Malcolm Knapp, Inc., in New York, the wholesale club industry generated a 51% increase in grocery sales in 1987 to $5.8 billion.

With industry sales averaging about $10.7 billion last year, grocery products garnered a 54% share of all wholesale club store sales.

Fm is estimating a more conservative increase for 1988, but our projections indicate that grocery sales will still be up a dramatic 24% to approximately $7.2 billion. With total industry sales projected at $14.2 billion for 1988, groceries next year should attain a 51% share of total wholesale club sales.

Growth comes from expanding the mix

Much of the growth in this industry is coming from new store openings. The top 12 chains that do 95% of the total industry volume went from 273 stores in 1986 to 332 in 1987, an increase of 54%.

But club operators also tell Fm that their same store growth is coming from an improved product mix, from enhanced services for off-the-street customers and from strong marketing programs geared to attract food service operators and small businesses that resell groceries.

Some chains like Costco in Seattle and Makro, which is now owned by K mart in Michigan, are adding service departments like fresh meat, fresh seafood, produce and bakeries to their mix in an effort to enhance their appeal to both consumers and restaurant operators; others like The Wholesale Club in Indianapolis and B.J.'s, which is owned by Zayre's in Boston, are refining their mix, adding more of the top 20 items that do 80% of the business, and adding previously overlooked categories like portion pack condiments for small restaurants or packages of penny and nickle candies that both restaurants and Mom and Pop operators like to use as "change makers."

Many chains are also using direct mailers and telemarketing companies to seek out and inform neighborhood small businesses about their services.

One buyer said his company was concentrating on letting the local variety store operators, and the local office managers know that they could buy more than just stationary or cleaning aids in his stores.

"We want them to see we can also supply them with candy or soft drinks or coffee or sugar," he said. "Maybe, we have a medical complex customer buying cleaning supplies or stationary from us right now. Well, we want them to realize that if they make coffee for their customers, then they can buy their supplies here with us as well as the coffee machines and the filters.

"If a variety store is buying cigarettes and soft drinks from us now, then we want them to buy their candy and their snacks here, too. If a beautician is buying cleaning supplies from us, then we want her to think of coffee and snack supplies as well, and if her shop has a guard dog, then we want her to buy her dog food here. That's how we build the volume."

Most wholesale club executives say they can't easily classify their grocery shopper. He or she, they say, buys groceries to meet a variety of needs, ranging from purely business to purely personal.

"I often watch the customers checking out of my warehouse stores," says Thomas Geisse, Marketing VP for the $271 million The Wholesale Club chain, "and I wonder what they're going to do with the different things they're buying.

"It's easy to spot the consumer who is just buying groceries for her family, or the gas station operator who's buying a box of doughnuts to snack on while he puts in the batteries he's just bought or the tires, but when you see someone who may have a flatbed filled with chemical supplies, clothes, appliances and cases of soft drinks, you really can't be sure what their end use is."

Among the 12 chains that now do 95% of all wholesale club volume, the Price Club is considered the undisputed leader at maximizing sales. Their 37 stores average about $100 million a year in sales, and although their mix is relatively small averaging about 3,500 sku's, it is carefully tailored to feature what the 60% of its members who are wholesale customers seem to want.

The Price Club boasts turns of between 18 and 25 a year, which is more than double what most of the competition can achieve.

"The secret," says a source, "is to carry what's most in demand. The large institutional size packs like the number ten size cans of fruits and vegetables, the 64-oz. cans of sauce and ketsup, the 50-lb. bags of dog food are very important to the wholesale customer.

"So are multiple packs of items like tuna and frozen meats.

Operators also say that brand name merchandise is important to them, particularly because selling brands at wholesale prices helps them establish their market identity and, as one source said, "it helps persuade our wholesale customers that they can rely on us for quality as well as for service."

Groceries have been generating about 50% of wholesale club sales even since the industry was born about six years ago. Most companies think groceries will continue to account for about half of the business for many years to come.

"It's the one category that people have to buy daily," said one buyer. "You buy it. You use it. You come back for more. In a way, it's the heart of our business, because it brings in the traffic that exposes our customers to all the other variety we have to offer. And when we take a 3% or 5% margin on a grocery or a soft drink, it sends a very good message to our consumers.

Perishables are an important part of the average warehouse club grocery mix. Customers buy for their personal use as well as resale.

Grocery Sale Trends in Membership Warehouse Club Stores

(retail sales millions)

Category segment	1982	1985	1986	1987	1988*
Packaged Groceries (excluding snacks)	$122	$1,526	$2,802	$4,203	$5,181
Packaged					
Alcohol	$ 13	$ 174	$ 327	$ 490	$ 603
Paper Goods	$ 11	$ 153	$ 288	$ 444	$ 564
Soaps/Household					
Cleaners	$ 12	$ 157	$ 296	$ 449	$ 560
Pet Foods	$ 6	$ 80	$ 154	$ 239	$ 304
Total Sales	$164	$2,090	$3,867	$5,825	$7,212

Source: Malcolm M. Knapp, Inc., New York

Nonfood chains are giving more space to household cleaning items. Turns are excellent.

Cleaning Supply Sales Up In NonFood

Most chains buy their cleaners on deal. On promotion, margins average 20% and everyday, they average 40% in this profitable category.

Kmart used to be the most aggressive nonfood promoter of household cleaning products as traffic builders, but now everyone in nonfood is featuring cleaners, from small independent drug stores to the Sam's Wholesale Clubs that average $50 million a year in sales.

According to Kline & Co., a marketing consultant firm based in Fairfield, N.J., household product sales are down in food stores, by 2% to 5% depending on the category, but they are up significantly in nonfood outlets.

Nonfood chains are promoting the category more often, they are increasing the number of household cleaning skus in their private label lines, they are building more ends featuring cleaners, and chains with large stores are putting them out on floor stacks and pallets.

The fact that the category is down overall in food stores, say buyers and nonfood brokers, is not a problem for the nonfood industry. "You are looking at a multibillion category," says broker Rick Bloom, who manages the Crofton, Md., branch of Watt & Company, "and there are plenty of people buying cleaners."

"It's a very attractive category with women shoppers. The nonfood stores are using cleaners both as a convenience department for their shoppers and as a traffic builder. And both ways, it's working well. With everyday margins of 40% to 55%, it's a very profitable regular department."

Buyers and brokers also say there is a lot of flexibility in the category in terms of what sells well. National brands like Tide, Clorox, Dawn and Wisk always do well, but so do some of the lesser brands like Real Pine, Bab-O and Purex.

"For some of the bigger brands like Tide and Clorox, there is a lot of price sensitivity," said a source for K mart. "These are items that most women buy one or two times a month, and they know the prices on these brands, so when we undercut the food stores by 20% or 30%, we generate a lot of traffic.

"On the other hand, women also buy a lot of cleaners on price alone. Bab-O is not Comet, but if we feature it at five 14-oz. cans for $1 as we often do, we can turn a lot of product. And because we're only buying on promotion, we can even make some money."

Some of the lesser known cleaners like a Murphy's Oil Soap also do very well in nonfood stores. Buyers say there is virtually no feature activity on a brand like Murphy's from the food stores, so they don't have to worry about banging heads when they feature it.

Drug chains, in particular, have been aggressively promoting Murphy's lately, and Art Silver, President of Silver Marketing in Berlin, N.J., says that it has been "blowing out the doors."

Frequently Promoted Cleaning Products in Nonfood Stores

Product	Popular Promotional Price
64 oz Wisk	2 for $5
14 oz Bab-O Cleanser	5 for $1
22 oz Joy	$1
22 oz Dawn	$1
128 oz Purex	$1
12 oz Shout	$1
3 pack Ty-d-Bowl	$2
16 oz Woolite	2 for $3
1.7 oz Vanish Drop-ins	3 for $2.25
24 oz Vanish	$1
147 oz Purex laundry soap	$3.37
60 oz Cascade	$1.89
28 oz Parsons ammonia	42 cents
14 oz Carpet fresh	$1.44
20 oz Magic Sizing	77 cents
Package of 8 Handi Wipes	97 cents
Package of 5 Stretch 'n Dust	97 cents

Source: *Fm* Research

"When the nonfood chains promote Murphy's," he said, "they feature the 16-oz. size at 99 cents to $1.09. Food stores generally charge about $1.29 for it every day. The key to turning the household chemicals in nonfood is pricing it considerably lower than the food stores. The chains are finding that when they go out with something like Murphy's at the right price, it blows out the doors."

Murphy's Oil Soap is showing a 30% increase in my nonfood sales," says Burt Houseworth, President of Key Stone Brokers in Oradell, New Jersey. "But, in fact, the entire category is showing growth in the mass market stores. Every major chain is promoting cleaners, and there's more couponing and more multiple promotions going on than I ever remember seeing."

Drug Emporium stores in Philadelphia have done so well with the Murphy's Oil Soap on promotion that they have now added four skus to their everyday planogram.

One source says the average store is generating about $400 a month with that item. Because a lot of the product is bought on deal, the source says the margins are averaging about 18%.

Drug Emporium also does a fantastic business with detergents, dish washing liquids, bleach, fabric softeners and furniture/appliance cleaners. Many of their stores give the category about 36 ft of space, plus ends, case stacks and floor stacks.

"We get a lot of traffic in our stores and the women recognize that our prices are below the market so we get great turns. We also buy a lot on deals so we get good margins. Overall, cleaners are a very profitable category for us," says Bob Lyons who manages the

New Era for Private Label Cleaners

Nonfood chains are beginning to upgrade their private label cleaning products.

Sources say that chains like Peoples, Rite Aid, K mart, etc., are planning to upgrade their formulations as well as their packaging so their own store brands can match the national brands on both quality and presentation.

At least one major food chain, Weiss Supermarkets in the northeast, has already taken this step, and a source says their sales of private label cleaners are showing stronger growth.

"Right now," says one source, "a chain may have a private label dishwashing detergent and typically, that formula will contain between 25% and 34% solids. Well a national brand like Dawn contains about 40% solids. That means the national brand is able to wash more dishes because the higher the solids level, the more dishes you can wash.

"The nonfood chains want their store brands to stand for quality so you're seeing a trend to upgrade their formulations, and at the same time, the chains are working on upgrading their packaging.

Some private label manufacturers in fact are now doing cross labeling for their customers just as the national brand manufacturers do. A few companies will cross label a store brand so the retailer can put a 25 cents off coupon, good toward a purchase of maybe their private label fabric softener, on a bottle of their private label dish detergent.

Other chains are talking to manufacturers about developing trial sizes, and in some food stores, you're soon going to be able to see knock off labels that read something like this: "If You Like Dawn, Try Me."

One source said the trend marks the emergence of the private label industry into "the era of marketing."

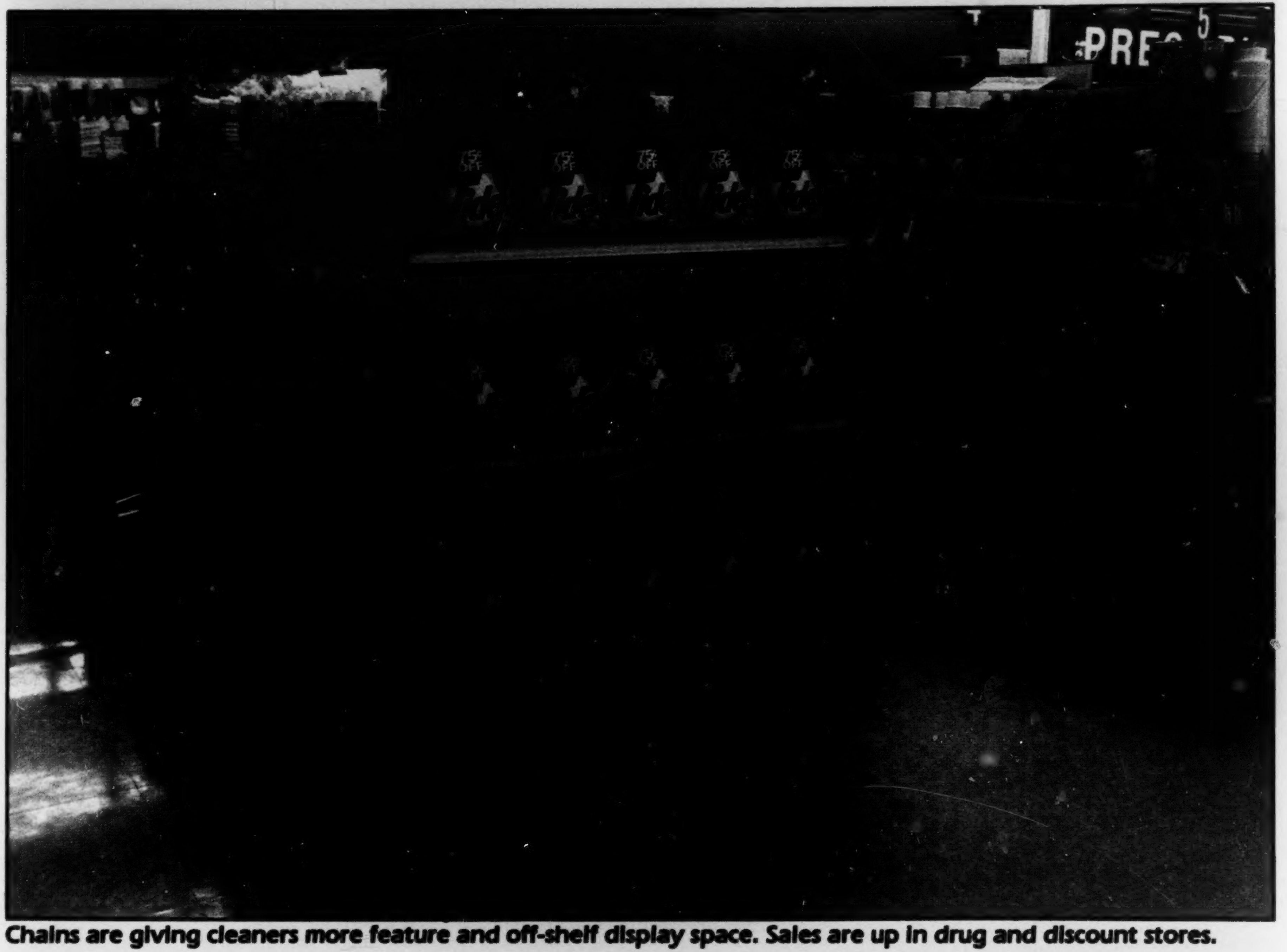
Growth in Household Cleaning Product Sale

(billions of dollars at wholesale)

Category	1986	1987	% chng
Soaps & Detergents	$4.7	$4.9	4%
Laundry Additives	$1.6	$1.7	6%
Specialty Cleaners*	$1.3	$1.4	8%
Deodorizes & Disinfectants	.570	.580	2%
Polishes & Waxes	.340	.330	(3%)
Total Cleaners	$8.9	$8.5	5%

*Includes ammonias, anti-static products, bathroom cleaners, glass cleaners, etc.

Source: Kline & Co., Fairfield, N.J.



Chains are giving cleaners more feature and off-shelf display space. Sales are up in drug and discount stores.

northeast division of Drug Emporium.

Most drugstores, give the department less space, however. The typical range is from about 12 to 32 ft. Many discount stores give the category as much as 36 to 48 ft., plus end caps and floor stacks. On promotion, discount stores are generally more aggressive with price than drug stores.

"We promote many items as close to cost as possible," said the manager of a Caldor in New Jersey.

"We want to make a statement to our consumers that we stand for value, so it makes sense to make a price statement with something as visible as a household cleaner."

Dart Drug in the Washington, D.C. market has a similar philosophy. Their stores promote household cleaners almost on an everyday basis, and they have given it as much as 50 to 60 running ft. in their stores.

One manager says, "we buy as much as we can of it on promotion and then we just stack it out."

Many chains also have a wide selection of household cleaners available under their own store labels.

K mart, in fact, has just created its own private label version of a Murphy's Oil Soap. "It sold so well for us," said one source, "that we realized we could turn it often enough to make it pay as a private label."

K mart often promotes its private label cleaners in its ads. One recent roto featured the K mart oil soap at a 44% savings, 32 oz. for $1.27 versus the regular price of $2.27. They've also advertised their own 19-oz. spray disinfectant for $1.42, for what the ad said was a "50% savings."

Household Cleaners: Market Share Changes
(Change in sales share 1987 vs 1986)

Segment	Food's Current share	Food stores	Nonfood stores
Soaps & Detergents	80% Plus	(3%)	3%
Laundry Additives	80% Plus	(2%)	1
Specialty Cleaners*	70% Plus	(3%)	2
Deodorizes & Disinfectants	70% Plus	0	0
Polishes & Waxes	75% Plus	(5%)	5%

*Includes ammonias, anti-static products, bathroom cleaners, glass cleaners, etc.

Source: Kline & Co., Fairfield, N.J.

Their dollar day sale circulars almost always include their own private label cleaners. Last spring, the ad featured their own 20-oz. Bathroom Cleaner for $1 as well as their own Fabric Softener in sheets or concentrate for $1.

Many drug chains also have their own private label cleaners, especially on commodity items like bleaches, ammonias and window cleaners. A source for Pennsylvania-based Rite Aid said they got into it as a way of "offering value" to their consumers.

"It also gives us a chance to feature three of four private label cleaners on one end," said one Rite Aid manager in Pennsylvania.

A Peoples source in Alexandria, Va., where the chain is headquartered, said that having cleaners in the line "rounded out" their private label program and gave them a chance to do a whole Sunday circular on private label.

"In those ads, we feature all kinds of consumables," he said, "everything from cannister snacks to dish detergents to fabric softeners."

Many nonfood chains also have a policy of only featuring the national brands when they are on deal. The rest of the time they'll keep some of the nationals, like Tide, Clorox, Dawn, Wisk, etc., in their regular cleaning department but they won't give them off-shelf exposure.

A typical strategy is to put one or two facings of a Dawn or Dove next to one or two facings of their private label item. The private label is usually 20% to 30% less than the national brand so the chains can offer their customers a significant savings while still making margins of between 20% and 40%.

However when chains do buy cleaners on promotion, which most chains say they do between 90% and 95% of the time, they give them ample off-shelf exposure. "We do very well with cleaners," said one buyer. "When we buy on deal, we can be competitive with food stores and still take 18% to 20% margins. Everyday, we seldom make less than a 30% margin."

Other sources say they are attracted to cleaners because food stores are not promotionally active in this category as they are with certain foods like tuna and mayonnaise or with certain HBA items like toothpaste and shampoos.

"The food stores don't promote the cleaning category that much," says Jim Marx of Pankow Sales in Chicago. "Instead of cutting the price a lot, they depend on rebates or coupons to generate sales in this category."

The most aggressive nonfood promotions with cleaners are seasonal: back-to-school in the Fall is a popular event for cleaners and so are the January/February Dollar Day circulars.

"Nonfood chains also do a lot with multi-pricing in this category," says Marx. "Especially in Dollar Day ads, you'll see a lot of brands priced at 2 for $5 to get the higher sale."

Hot Trends In Cleaning Products

In the household products category, the hot buzz words in 1987 were "lemon fresh," "outdoor fresh," and convenience.

According to the Kline & Company in Fairfield, N.J., the hottest new products were those with the word "lemon" in their brand names and those with fragrances reminiscent of the outdoors.

Convenience was also very important to consumers in '87, and Kline says many of the most successful launches featured either some form of convenience in either the product or the package.

Many manufacturers brought out lemon scented household products last year, but the strongest sales came from the major brands such as Lemon Brillo, Lemon SOS, Lemon Fantastic, Lemon Cascade, Lemon Fresh Dash, and Lemon Comet.

In outdoor scents, Tide Clothsline Fresh Scent stood out and so did Sun Rinse Fresh Liquid Downey. Surf's Fresh Scent, introduced back in 1985, continued to do well. Mountain Spring Dawn is doing well and so is Downey's April Scented Dryer Sheets in test markets.

Colgate did very well with the introduction of the Fab One Shot Pouch which contains everything a woman needs to both wash & machine dry her clothes. Kimberly Clark is now testing a similar single dose product called Command and P& G is testing Bold Washer/Dryer packs. Cheer also has Power Punches in test and P& G is testing Tide Multi Action Sheets and Tide Redi Paks.

Carey Ahsler, a marketing consultant for Kline, says that lemon seems to be hot because so many people associate the scent with efficient cleaning. She says the outdoor scents are doing well because they make people think of the fresh outdoors.

Convenience is important because so many women work. "When a woman is home," Ahsler says, "she doesn't want to spend all her time cleaning, so she buys products that will let her take care of several tasks at once or products that are easier to use like a spray."

Growth Segments In Household Cleaners

Segment	'88 $ Sales (millions)*	% change '88 vs '87
Mildew Removers	$ 41.7	17.9%
Upholstery Cleaners	$ 6.2	9.7%
Fabric Bleach/Detergent Boosters	$305.5	8.8%
Rug Cleaners	$ 58.0	7.4%
Window Cleaners	$155.4	4.3%
Laundry Soil/Stain Removers	$139.0	4.1%
Sponges	$ 37.8	4.1%
Bowl Cleaners	$208.9	3.8%
Starches	$ 95.5	3.5%
Metal Polishes	$ 30.8	3.5%
Drain Cleaners	$ 99.3	2.8%
Heavy Duty Detergents	$330.1	2.7%
Dishwasher Detergents	$444.1	2.5%
Air Fresheners	$353.3	2.3%

*Retail Food store sales only

Source: Sami Dry Grocery Non-Food Category Trends

Some soft drink buyers for nonfood chains say their sales are up between 10% and 25% this year.

Soft Drink Sales Surge in Nonfood Stores

Emphasis is on promotions that feature sweepstake prizes and special consumer values. Retailers say they get better margins, plus opportunities for higher margin tie-in sales.

Soft drinks is one of the few multi-billion dollar categories that buyers say is still growing at a strong annual rate.

According to the trade magazine Beverage Industry, soft drink unit sales are up 5.5% over last year. However, many nonfood chain buyers say their soft drink sales are up two to three times the industry average.

The overall growth is partly due to increased per capita consumption of soft drinks, but it's also attributable to the fact that many nonfood chains are giving the category expanded space in their stores while some are also trying to give it better merchandising exposure. Most nonfood chains are also promoting soft drinks more frequently.

Soft Drink Consumption Sale Trends
(measured by cases:
24 8 oz cans to a case)

	1987	1986	% chng
Cases in billions	7.1	6.8	5.5%

Source: Beverage Industry Magazine

A source for K mart, which has a permanent soft drink department in about 25% of its stores, says soft drinks turn "incredibly fast." He said most stores can turn soft drinks once a week, even when the line is merchandised "off the main rectangular aisle and in one of our corners near the wall."

"It seems to be one of those things that the more people buy, the more they use," he said. "If we have a special feature price on a major brand, they stock up. Then they come right back in a week or so and stock up again."

For years soft drinks has been a sort of step child in the nonfood industry, tolerated by many chains because of its strengths as a traffic builder but looked down on as an imperfect category because its margins were comparatively low, even everyday.

However, now some chains are moving away from what one source described as a "margin mentality" and looking more at the dollar potential of individual categories.

"On promotion, we might go out at a 5% margin," said the beverage buyer for a southwest-based drug chain, "and when we do that, we're looking at a category with tremendous volume potential. We won't make a lot of money on it, but we'll generate penny profits and we'll get the traffic.

"Everyday, I'll make about a 20% margin, but it will keep turning for me. It's a good cash flow category. I don't have to wait two months to sell a piece."

Most chains say their best sellers are the leading brands, Coke, Pepsi, 7-Up and Dr. Pepper.

The best selling sizes are 2 liters, 6-packs and 12-packs.

Buyers say that two of the hottest new products introduced in the past year are Cherry 7-Up and Pepsi's Diet Mountain Dew.

However, although new products are important, the new launches are not as important for the nonfood chains as the established brands.

Non food chains are stressing value rather than price in their latest soft drink feature ads

One source said that one of the reasons there is more growth in this category now is because the nonfood chains, particularly the mass merchandisers, have started to play down price as their promotional focus.

Instead they are working with the soft drink vendors to develop customized promotions as well as promotions built around sweepstakes or tie-in sales with higher margin categories.

Coke, for example, did a Summer Sweepstakes promotion with K mart last year, that was, in K mart's words "a big success," and they are doing a second similar program this year called a Summer Sailaway Sweepstakes.

K mart featured the sweepstakes in this year's spring rotos. In a two-page spread of grocery items, the Coke feature was the only one that didn't mention price. Instead it invited shoppers to "Come in and enter" the K mart/Coke sweepstakes. Consumers had a shot at winning one of 100 cruises for two to the Bahamas aboard a Carnival Cruise ship, plus over $1 million in K mart bonus gift certificates. K mart and Coke designed the contest so that there would be over 180,000 prize winners.

Soft Drink Share Tonnage Sales Trends
(by soft drink category segment)

Segment	1986	1987
Colas	68.8%	69.1%
Lemon Lime	11.3	10.6
Pepper	4.6	4.8
Juice added soft drinks	4.9	4.5
Root beer	2.6	3.0
Orange	2.4	2.2
Other	5.4	5.8

Source: Beverage Industry Magazine

Sweepstake promotions are easier on the retailer

Besides making it possible for K mart to set a higher margin because the ad doesn't stress price, this kind of feature program also makes it easier for the individual stores in different regions of the country to promote soft drinks.

It makes it possible for each store to work with the individual bottlers to promote that bottler's best selling size or pack for their separate markets.

"It eliminates all the hassles of trying to deal with hundreds of bottlers at once," says a K mart source, "plus we're not locked into any particular package. If we can get a better price on two liters in the northeast, then we'll feature that in displays in the northeast stores. If our best price in the mid-west is on the six-packs, then that's what the mid-west stores will display."

Beverage Consumption Patterns

Category	8 oz drinks per person annually
Soft drinks	674
Water	659
Coffee	406
Beer	382
Milk	325
Juice	111
Powdered soft drinks	98
Bottled water	91

Source: Beverage manufacturers

Pepsi creates value with E.T. rebate promotion

Pepsi is also offering new promotions built around sweepstakes and special values. Later this fall and in early winter, Pepsi will launch a promotion built around a tie-in with the distributors of the soon to be released video of E.T.

Mass merchandise stores are now a major source of video purchases, and many drug chains have video centers as well. The Pepsi promotion will let a chain advertise Pepsi by stressing, not price, but the availability of a special $5 rebate that Pepsi is offering on the E.T. video purchase.

The event will break just in time for the holidays, and it will give consumers a chance to buy a $24.95 copy of E.T. for $19.95. Retailers who feature the promotion should be able to get a video sales, plus a soft drink sale.

Wal-Mart will test new locations for soft drinks

"Soft drinks are not just a food store item anymore," said a Wal-Mart manager. "We've sold them for years, but we don't think we're fully utilizing the category. There are other things we can do to make this category more profitable and we're going to do it."

Several sources also say that Wal-Mart is about to test new ways of merchandising soft drinks. Right now the chain primarily stocks soft drinks in its "wall of values" right beyond its cash registers.

Later this year, sources say that Wal-Mart will begin testing soft drinks in the snack category which is right across from its registers.

K mart is also testing various configurations and locations for soft drinks.

The attitude among buyers is that the category is great for growth, but that profits could be even higher with some merchandising and promotional refinements.

Healthy Fun Drinks Sell Well for Nonfood Stores

Soft drink sales are growing in nonfood stores, and so are sales of bottled waters, juices and juice enhanced bottled waters.

Photo by Ray Garland

Americans today are spending more time outdoors, and they're drinking more juices & bottled water.

Beverage sales in nonfood chains are growing at what buyers say is a steady 10% to 15% rate a year.

Soft drinks, which are used by about 95% of all households in America, are up significantly, buyers say, but they are also reporting dramatic growth in bottled water sales, juice sales and the sales of juice enhanced sparkling bottled waters. Asceptic packs of juices are also doing well throughout the country.

Tea is also selling well in many nonfood chains, and buyers say it seems to have become a year round rather than just a seasonal item. Several buyers said coffee is a good item to promote "when you can get the right price," but they add that it is more of a seasonal item and also a harder category to compete with because food chains price it so aggressively.

Juice & bottled water drinks are hot

Buyers tell Fm that soft drink sales are strong even when they are not being advertised, but buyers also say that one of their hottest new categories right now are healthy drinks: bottled waters, juices, and juice enhanced sparkling bottled waters.

In the last year, chains like Wal-Mart, K mart, Target, Venture, Longs, Walgreen's, K & B, Eckerd, Thrifty, Osco and the Sav On division of Osco, have all done promotions highlighting juices and juice enhanced drinks like Ocean Spray, Welch's, Dole, Motts, Seneca, Treetop, Sundance or Calistoga.

Many of these chains are also generating, what some buyers call "fantastic growth," from the bottled water segment, both with spring water brands like Poland Springs in the northeast and Oasis in Texas and with carbonated brands like plain Perrier and Perrier enhanced with essence of fruit like lime and lemon.

A number of nonfood chains now have bottled water sections in their regular beverage departments, and several are expanding these departments to include new types of drinks like Perrier's Calistoga Sparkling Juice and Stroh's Sundance Sparkling Juice, both of which were launched less than two years ago.

Both Sundance and Calistoga are appealing drinks by themselves, plus they make excellent substitute for alcoholic beverages, particularly the sweeter drinks like wine coolers.

Calistoga is still primarily a regional brand, available just on the West Coast, but Perrier has just launched another sparkling water/juice under its Poland Springs brand which is available in the northeast.

Sundance, however, is now in national distribution, and Stroh's is giving the brand strong support both in print and on national TV and radio. A company source says the brand's '88 sales could exceed $100 million, which would be very good for an item that wasn't even around two years ago.

Bottled Water Segment Share Trends

Segment	% share
Non Carbonated	77%
Carbonated	23%

Source: Sami Drug Grocery Food Category Trends

New additions to the beverage mix

So far, Wal-Mart has become the first major discount chain to stock Sundance on a permanent everyday basis. Management is also putting Sundance into its Sam's Wholesale Club stores in a special shrink wrapped four-pack case.

Longs on the West Coast now features Calistoga in many of its stores everyday as well as Perrier everyday. Some Eckerd stores in Texas have Calistoga as well as Perrier everyday, and Perrier is in everyday distribution in Peoples and Dart drug as well as in some Chicago and Florida Walgreen's.

The Price Club in San Diego, Calif., also stocks shrink-wrapped four-pack cases of both Calistoga and Sundance everyday, and so does Price Savers in Cincinnati. Sam's Wholesale Club also carries both brands, and there is a chance that Perrier may soon show up in Wal-Mart on an everyday basis. Discussions are underway.

Target and Venture are both promoting Sundance about three times a year and so is Longs Drug, Thrifty and Sav-on, all in California. Drug Emporium, a deep discount drug chain headquartered in Worthington, Ohio, is testing it for everyday distribution in several markets.

This spring, Venture promoted the Sundance four-pack at two for $4. Food stores generally retail the four-pack at between a $2.69 and $2.99 everyday price.

One source said Venture's opening order of about 3,000 cases sold through in a single week-end because of the price. "It was a great price," he said, "and the promotion worked fine as a traffic builder, but the stores made money on it too. We took between a 5% and 10% margin."

The food chains on the West Coast, where the brand and the category originated, give the category an average of about 30 linear ft. in their everyday bottled water department. On the West Coast, many food chains give bottled water about 60 to 80 linear ft. in their stores.

One buyer told Fm that the category is right for todays market. "Everyone is thinking healthy right now," he says, "and everyone is dieting. Many people choose to only drink juice or bottled water when they go on diets, and many others use the juice enhanced drinks as thirst quenchers after they exercise or exert themselves physically in some way.

"They're no longer just a West Coast item. They seem to sell well all over the country with maybe a few exceptions like some southern regions and some of the more conservative cities like Detroit."

The source said that if he did decide to stock the juice enhanced sparkling water beverages on everyday distribution, he would take about a 30% margin on his retail prices, and he'd promote it "probably twice in the spring and summer and at Christmas. They're good drinks by themselves or as mixers," he said.

Plain juice drinks are also doing

Nonfood chains are expanding their beverage mix to include more juice and juice related products. Buyers say healthy drinks are "hot."

Bottled Water Retail Sales Trends
(through food stores only)

All Bottled waters	1982	1986	1987	% chng '87 vs '86
	(millions of dollars)			
	$137.7	$281.5	$355.7	26%

Source: Sami Dry Grocery Food Category Trends well in nonfood stores, buyers and brokers say. In Berlin, N.J., Art Silver, president of Silver Marketing says that Welch's grape juice drinks are doing exceptionally well. Most of the major nonfood chains promote juice drinks today including Drug Emporium, Rite Aid, K mart, Peoples, Wal-Mart, Target and Venture.

"Generally, when the nonfood chains promote juice drinks," says Silver, "they charge 20% to 30% less than the food chains. They also make money on it because generally they're buying on deal."

Juice Retail Sales Trends
(through food stores only)

Segment	1982 (millions of dollars)	1986	1987	% chng '87 vs '86
*Juice Drink Concentrates	$ 15.7	$ 33.4	$ 40.2	20%
**Single Strength Juices	$ 831.5	$1.369.2	$1.549.0	13%
**Canned & Bottled Juices	$1.684.5	$1.823.6	$1.863.4	2%

*All juices that need water added;
**Juices like Ocean Spray, Gatorade, Hi C
**All fruit juices & nectars

Source: Sami Dry Grocery Food Category Trends

Rite Aid scores with juice close out buy

Last April, Rite Aid was particularly successful with a multiple promotion of juice drinks. The chain bought a close out on the 8-oz. Welch's juices and advertised them three for 99 cents. Sources said the promotion was a big success, particularly selling well to young mothers and young adults.

Nonfood chains are also promoting more juice drinks at Thanksgiving and Christmas. Sparkling enhanced juice beverages like Sundance and Welch's sparkling grape juices get a lot of feature activity at Christmas. Several buyers say they will also promote Welch's new sparkling apple cider later this year.

Peoples ties in to Gatorade's fsi's

This year and last year, buyers say that Gatorade was so successful on promotion that the word "awesome" is the best way to describe it.

Peoples Drug has had so much success with Gatorade that they are occasionally tieing in with Gatorade's full supplement inserts (fsi's).

Last spring, People's ran an ad on Gatorade the same weekend the supplement came out. Because the supplement featured a 30 cents off coupon, the People's ad mentioned its own low sale price, then the copy added "plus added 30 savings" and suggested that consumers look in their Sunday Washington Post for more special savings.

People's can only do this in its Washington market, however, because this is the only market where People's can reach about 90% of its customers by advertising in one newspaper.

Rite Aid has also been very successful with Gatorade.

Sources for the Pennsylvania-based chain said they were ordering "huge" quantities of Gatorade for spring and summer '88. One source said Rite Aid will keep the large size Gatorade on an end for most of the summer months, plus, he said, they will put their single serve sizes in their coolers. He also said Rite Aid will be putting Welch's grape drinks into their coolers.

Cooler programs add to chain profits

Many chains are expanding their cooler programs into more of their stores. Rite Aid, for example, has coolers in about 1200 of their 2100 stores and is currently rolling them out to nearly all stores.

One source said the coolers generated considerable impulse sales and bring new traffic into his stores. He says he usually makes between 40% and 50% on every beverage he stocks in his cooler. Other drug chains with coolers are Walgreen's, K & B, Revco, Eckerd, and Peoples.

Buyers say that asceptic packs are also hot. Mothers especially seem to like them for their convenience. Just about every major nonfood chain has promoted asceptic packs recently including Walgreen's, K mart and Wal-Mart.

Longs has a permanent home for asceptic packs

Out on the West Coast, some Longs stores are creating permanent homes for asceptics. These stores generally take two or three six foot rows above the soft drinks and stock the asceptics there.

Generally, Longs only buys what is on promotion so managers tell Fm that margins on the asceptics are excellent, in excess of 20%.

"We price competitive to the food stores," says on manager. "But we don't give it away and because of the convenience, we get excellent turns."

Managers say they have advertised most of the most popular asceptic brands including the packs from Ocean Spray, Hi-C, Kool Aid Koolers and General Food's new asceptic pack for Tang.

Longs also recently did a major multiple promotion featuring Lipton products including their 100 count teabags.

One source said this was the first time Longs has done a chainwide promotion featuring multiple brands from a grocery manufacturer. However the source said Longs had tested the idea in several districts last year and that it worked so well, they decided to okay the chainwide promotion.

The promotion, which broke in two newspaper ads in May, featured a total of 34 items including the 100 count teabags, 12 flavors of the Sunkist Fun Fruits and 21 flavors of Lipton's side dishes: Noodles and Sauce, Rice and Sauce, Potatoes and Sauce and Pasta and Sauce.

The chain bought 20,000 cases and one source estimated that it took about a month to sell through.

"When consumers see a family of brand name products at a good price, then tend to stock up," said one manager. "That means we get a higher ticket sale and a pretty fast sell through."

7/21/88 C 5150-3

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Former Allied Prez Forces Gold Circle Bidding War

By Kenneth M. Chanko

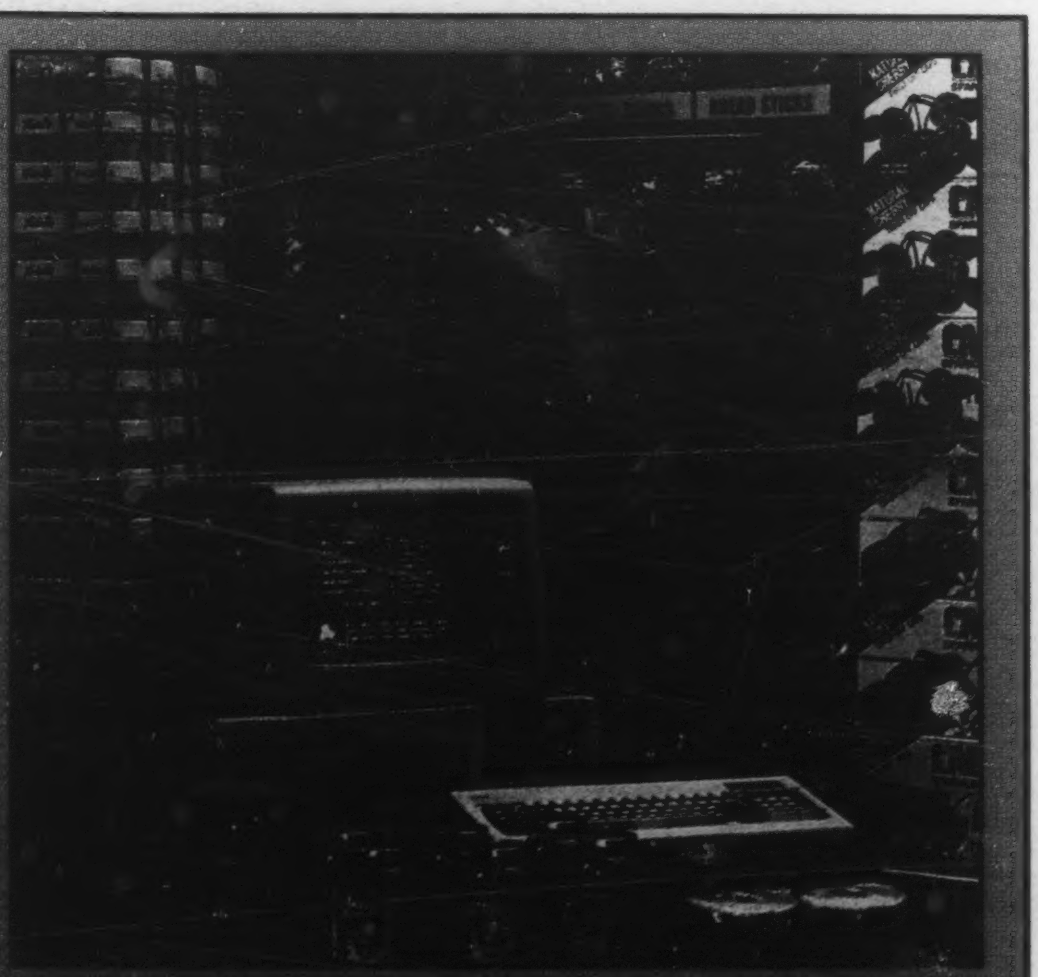
WORTHINGTON, Ohio — Just when it looked as though Gold Circle was a discounter that nobody wanted, a bidding war for the 76-unit chain is suddenly on.

While top Gold Circle executives continue their efforts to acquire the chain from Toronto-based Campeau Corp. through a leveraged buyout, Robert H. Morosky, former president of Allied Stores Corp., has put forth his own bid for the upscale discounter.

Jack Smailes, vice chairman of Gold Circle, who along with president Robert Glass is spearheading the management-led LBO, told *DSN* that he is aware of Morosky's interest. Smailes emphasized that it's definitely a competing bid, and that Gold Circle management is not working with Morosky in any way.

"It's a positive development in the sense that it indicates Gold Circle is a viable entity, and that if acquired, the central office should be kept pretty much intact," said Smailes, who has taken over all merchandising and marketing duties. "The negative would be that the process could become more drawn out, and that

(Continued on page 118)



GROCERY EXPRESS, a phone and computer food ordering service, will go on-line this fall on the PRODIGY system.

Prodigy to Give Big Apple A Taste of PC Shopping

By Arthur Markowitz

WHITE PLAINS, N.Y. — Prodigy Service Co. plans to expand its start-up national interactive computer home shopping and information service—launched in three markets last month—to New York City next year.

Besides being part of the electronic retailer's goal of being in 20 of the nation's top markets by the end of 1989, the move will expose PRODIGY to both Wall Street and Madison Avenue, thereby turning the innovative videotex service into a high-profile venture.

A number of other videotex services like Viewtron in Miami and Gateway in Los Angeles have failed in the past because of high costs, limited use by consumers and little exposure to potential advertisers like retailers and such

(Continued on page 118)

Kinder-Care Plans Retail Expansion With Bargain Town, Apparel Chain

By Mary Ellen Kelly

BIRMINGHAM, Ala. — Bargain Town USA, operator of 58 dollar stores and six Bargain Town R.P. (Right Place/Right Price) family apparel units, this month launched a one-price women's apparel chain called, "$imply 6."

Besides the new spin-off, Bargain Town's parent, Kinder-Care Inc., based in Montgomery, Ala., announced plans to expand Bargain Town USA into a $300 million retailer within five years. Kinder-Care acquired the then $48 million Bargain Town USA nine months ago.

Kinder-Care Inc. is believed to have the resources to carry out its aggressive retail expansion plans for the dollar store chain. Kinder-Care operates the nation's largest chain of children's day care centers (about 1,200 locations), extensive insurance and financial services, in addition to photographic studios.

The corporation reported revenues of over $506 million for the year ended Dec. 31, 1987, and net earnings of more than $26 million, despite an $18 million loss charged

(Continued on page 117)

Discounter Sales Productivity

Discount Dept. Stores

Sales Per Store (In Millions)		Sales Per Sq. Ft.	
Fedco	$58.3	Meijer	$355.00
Meijer	47.9	Fedco	324.07
Ann & Hope	43.0	Ann & Hope	226.32

Source: DSN research

DSN Census Examines Productivity, Products

Nationwide DSN Report

Meijer in the Midwest, Fedco on the West Coast and Ann & Hope in the Northeast [illegible] the most productive discount department stores last year, according to calculations from DSN's [illegible]

Fedco, [illegible]

Son of Industry Pioneer, Catalog Vet Team Up for New Showroom Chain

BATON ROUGE, La. — Huey Wilson, a unique jewelry/giftware specialty showroom chain, is being launched by two persons long familiar with the catalog industry.

The two are E. Woodrow Fleming, formerly vice president of Best Products' jewelry group, and Huey J. Wilson Jr., son of Huey J. Wilson, the entrepreneurial founder and developer of the former H.J. Wilson showroom chain.

The proposed chain, whose logo hasn't been finalized at presstime, is the first new showroom venture in years. Its start, following the turnaround of the industry's leading chains, Service Merchandise and Best Products, is another sign of new vitality in the showroom business.

The specialty merchandising nature of the new chain, however, illustrates how catalogers are refining their business to center their selling on higher-margin categories like jewelry, thereby undercutting competing full-price specialty retailers.

Huey Wilson Interests Inc., begun by the two executives, has joined the 12-member Associated Charter Catalogs group, and plans to use about 300,000 of that coordinator's books. A number of Wilson's relatives operate three other chains—Beard's, Kux Jewelers and Wilbro—which are also members of the Associated Charter group.

Fleming declined to discuss the financing of the new company. "This is the business I have been in for 25 years and I have always wanted to do something from the ground up. When Huey [Wilson Jr.] showed an interest in the specialty showroom idea, we got together," he said.

HWI plans to open at least four specialty showrooms, ranging from 8,000 square feet to 12,000 square feet, this

(Continued on page 118)

Hoopla Abounds at Wal-Mart Meeting

Ames Marr… Fashion to …

…dy Forecasts …eotex Usage

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MARKETWATCH

Thrifty Completes Purchase of Bi-Mart

LOS ANGELES — Thrifty Corp.—owner of Big Five, MC Sporting Goods, Gart Bros. and a major West Coast drug chain—officially acquired 37-store discounter Bi-Mart late last month. The acquisition by the Los Angeles-based chain included both Eugene, Ore.-based Bi-Mart and 110-store Pay 'n Save drug stores out of Seattle. Both chains were purchased from Pay 'n Save Inc., whose majority stockholder is the Trump Group—also the majority stockholder of Northern Automotive, the second largest auto aftermarket chain in the nation. When Thrifty first announced its intent to buy Bi-Mart and Pay 'n Save, the conglomerate said it would probably pass on to the acquired chains some of its sporting goods expertise. Thrifty Corp.'s combined sporting goods chains currently rank as the nation's second largest behind Carteret, N.J.-based Herman's.

Cataloger Parent Buys Computer Firm

MARKHAM, Ontario — International Semi-Tech Microelectronics, parent of the $280 million (American dollars) Consumers Distributing (U.S.), has acquired Canada Systems Group, a $142 million (Canadian dollars) data processing company. ISTM plans to combine CSG with Datacrown, a $50 million (Canadian) computer services and facilities management firm it had acquired earlier this year. ISTM, meanwhile, reported $25.6 million (Canadian) in sales for the fiscal year ended Jan. 31, up 67.3 percent from $15.3 million, while net earnings increased 38.5 percent to $7.2 million from $5.2 million.

NRMA Sessions Address Retail Systems

NEW YORK — Artificial intelligence applications and working sessions on UPC and EDI will highlight the Nation Retail Merchants Association's Retail Information Systems Conference to be held Oct. 2 to 5 at the Sheraton Hotel, Washington. At the conference, 300 exhibitors will have booths displaying and demonstrating computers, POS systems, scanning and marking equipment, software, electronic fund transfer and ATM terminals, and telecommunication products. Information: NRMA, Information Systems Division, 100 West 31st Street, New York, 10001. Phone: (212) 244-8780.

ShopKo Expands in Its Home State

GREEN BAY, Wis. — ShopKo will begin construction this fall on its 33rd Wisconsin store, scheduled to open in 1989. The 83,000-square-foot store located in Grafton will anchor a shopping center and generate some 200 employment positions, bringing ShopKo's home state employment count to 7,500 people.

Design Firm Looks to The Far East

NEW YORK — Walker Group/CNI, the retail design group based here, has announced the formation of a joint venture with Nomura Display Co. of Tokyo. The new entity, WalkerGroup/Japan, was formed to address "the needs of the rapidly growing markets in the Pacific Basin and the growing influence of Japanese companies within Southern California and the West Coast," according to Walker's Mark Pucci, principal-in-charge of the Los Angeles office. WalkerGroup/Japan, which is based in Tokyo, will provide architectural, interior design, retail planning, merchandising and market research services to Pacific Basin clients. Walker Group owns 51 percent of the new company; Nomura Display owns the remaining stake. Kenneth Walker, chairman of Walker/CNI, is the new company's president, with Nomura's Hidetomo Tanaka serving as vice president and managing director.

Key Quits Catalog Showroom Biz

AUGUSTA, Ga. — Allied Wholesale Distributors has become the latest Georgia-based regional cataloger to exit the showroom industry. It plans to close its nine Key catalog showrooms by September, citing reduced consumer interest in discount-price merchandise and a decline in sales as the reasons for the step. Key, a member of Paul Schultz Catalog's Premier Merchandising & Marketing group, was a $30 million chain with seven showrooms in Georgia and two in South Carolina. Last year, Savannah, Ga.-based Segall & Sons, closed its six showrooms.

FOR THE RECORD

In *DSN*'s May 23 issue, San Diego's population ranking as the country's 19th largest city, referred to the size of the San Diego Standard Metropolitan Statistical Area (SMSA).

Williamson Dickie is one of four SPARC (Supplier Performance Awards by Retail Category) award nominees in the men's apparel category. The SPARC ballot in *DSN*'s June 6 issue inadvertently listed the firm in the wrong category.

K mart to Open First Sports Membership Clubs in Mich.

TROY, Mich. — K mart will open its first Sports Giant membership sporting goods clubs in shopping malls in Madison Heights and Livonia, Mich., the company announced.

The first two stores of K mart's new sporting goods specialty venture are expected to open early next spring and employ about 90 each. Hiring will begin in January 1989.

Sports Giant will allot 25 percent of its 50,000-square-foot stores to activewear and athletic apparel.

Other offerings will include footwear, bicycles, and exercise, team sports, ski, hunting, fishing, golf, tennis and camping equipment.

Sports Giant is a new division of Builders Square, San Antonio, Texas, K mart's home center subsidiary.

K mart did not disclose how much it will charge for club dues, but did say that member prices will range 5 percent to 10 percent less than non-member prices. There will be an open membership policy, said Charles White, chief executive officer, Sports Giant.

K mart pegged the sporting equipment and leisure time products market at more than $32 billion annually, and noted that industry analysts predict a double digit percentage increase for 1988.

Also through Builders Square, K mart is cranking up another new specialty venture, Office Square, which will specialize in office products. The first Office Square will open sometime this summer in Palatine, Ill., outside Chicago, and K mart is planning a second store in the Chicago market.

Follows Showroom Expansion

Cataloger to Open New HQ, DC

CLEVELAND — Cataloger U.S. Merchandise plans to open a new 40,000-square-foot headquarters and distribution center in south Cleveland early next year.

The move will follow the chain's opening of a 21,000-square-foot showroom, its sixth unit, in September in the Points East strip center in Mentor, Ohio. Last year, the cataloger opened one showroom in Elyria, Ohio, and remodeled three older stores.

The chain's proposed new headquarters is located on a three-acre site in the Jennings Industrial Park at the intersection of Interstates 480 and 77. It will consist of a 10,000-square-foot office and a 30,000-square-foot distribution center and jewelry warehouse and grading facility, with room for a 16,000-square-foot addition.

When the new headquarters is opened, U.S. Merchandise plans to install a new decentralized minicomputer system to replace its current centralized electronic data processing network. Each showroom will have a standalone computer, polled each night, rather than the centralized setup that would be inoperable chainwide should the main computer fail.

U.S. Merchandise is using its new showroom prototype in Mentor. That layout features a central aisle with jewelry and giftware on opposite sides at the front and the remaining departments in the back. The warehouse has been cut by 2,000-square-feet to 10,000-square-feet to free up more space for selling, but it has been double decked to stock as many goods as in older, larger stores.

Twin Valu to Be 24-hour Operation

GREEN BAY, Wis. — ShopKo will establish a hypermarket industry first with its two proposed Twin Valu stores: they will be 24 hour, 7-days-a-week operations.

In other respects, the 180,000-square-foot units, set to open next year in Cuyahoga Falls and Euclid, Ohio, will mirror other hypermarkets, including spotting a number of health care services and specialty departments on the store's perimeter.

ShopKo disclosed its Twin Valu plans in an announcement late last month that confirmed *DSN*'s earlier story on the hypermarket venture (see *DSN*, June 20, page 1).

Twin Valu will carry 85,000 sku's—25,000 in foods, 60,000 in general merchandise. It will have 51 checkouts and its specialty department lineup includes in-store bakery, deli and seafood, an optical and pharmacy center, one-hour photo lab, portrait studio, floral shop and restaurant.

The stores are each projected to do over $1 million a week in sales, with more than half the volume coming from food. Footage will be divided about equally between food and general merchandise.

While ShopKo will run Twin Valu, the regional discounter will source food for the hypermarkets from Food Marketing Corp., Fort Wayne, Ind., a grocery wholesale division of Super Valu, ShopKo's parent.

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Part II

Annual Industry Report

Apparel Sales Hit $26B

Ladies' wear, still the largest single discounter merchandise category, will grow only about 2% to $16.1 billion, partly due to a lack of fashion direction. (DSN photo)

Full-Line Discount Store Productivity

Category	Discount Volume (In Billions)	Sales Per Store (In Thousands)	Dept. Size (In Sq. Ft.)	Annual Sales/ Sq. Ft.	Annual Turns	Percent Initial Markup	Percent Gross Margin
Ladies' Wear	$16.1	$1,965	11,000	$177.00	4.2	51.4%	30.4%
Housewares*	11.4	1,392	7,550	184.37	3.4	34.2	24.9
Men's/Boys' Wear	9.9	1,208	7,800	154.87	4.1	47.2	33.7
Hardware**	6.9	842	4,500	187.16	2.5	41.6	32.4
Consumer Electronics	6.4	781	2,300	339.65	3.3	30.2	17.4
Health & Beauty Aids	6.1	745	3,200	232.69	5.0	25.8	19.3
Automotives	5.7	696	2,400	289.92	3.1	34.1	25.4
Toys	4.5	549	2,500	219.72	3.0	37.2	26.6
Sporting Goods	4.0	488	2,500	195.28	2.2	37.4	28.7
Domestics	3.8	464	3,150	147.24	2.6	44.5	34.7
Photo	3.4	415	650	638.46	3.5	25.5	18.0
Stationery	2.7	330	1,900	173.42	3.8	47.2	42.2
Jewelry	1.9	232	650	356.77	2.1	52.4	42.5

*Includes personal care, small electrics, non-electrics and RTA furniture.

**Includes paint.

Note: Other categories totaled $4.6 billion.

Source: DSN research

DSN's Annual Discount Industry Report

Part II: Merchandising Analysis

Apparel:

Ladies' Wear 29
Men's Wear 29
Jewelry 33

Home Products:

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Annual Report: Part II

Apparel

Women's Wear Sluggish, But Sales Up 5.7%

Sales of apparel for juniors slowed during the second half of last year and business is still sluggish, with no hot fashion item to drive the category. Pictured is Apricot Bay private label at Ames' Meriden, Conn. unit. (DSN photo)

Nationwide DSN Report

In the face of a continuing sluggishness in women's apparel industrywide, discounters and off-price specialty chains will manage a respectable 5.7 percent sales volume increase this year, according to *DSN* research.

Total sales will hit $22.3 billion in this most important apparel category. Full-line discounters will see sales grow by a mere 1.9 percent to $16.1 billion; off-pricers will experience a 15.7 percent jump this year to $5.9 billion.

By not having to deal as directly with the highly volatile aspects of cutting-edge women's fashion, including the "great hemline debate," most discounters and off-pricers were not hurt as severely as the upper-end department and women's specialty stores.

Lack of One Fashion Look

However, discounters were affected by the distinct lack of any one fashion look or item to spur ladies' wear sales. The acid-washed denim jean, no longer a new item, is the last fashion product to stir any real excitement and drive the business.

Ladies' wear sales per store edged ahead by 0.9 percent to $1,965,000. General merchandise discounters enlarged their women's departments, going from an average of 10,000 square feet per to 11,000 square feet.

Because of the greater space, coupled with slower than normal sales growth, sales per square foot dropped by $18, or 9.2 percent, to $177 per square foot.

Turns slowed to 4.2 from 4.5, reflecting the lack of fashion excitement in the market. In addition, because of the need to react more quickly to style changes, ladies' wear manufacturers and retailers have been more reluctant—compared to their men's wear counterparts—to institute wholesale Quick Response programs.

Initial markup rose to 51.4 percent from 47.4 percent, and gross margin shrunk to 30.4 percent.

Upscaling of ladies' wear departments, at both full-line discounters and off-pricers, continued over the past year, along with the addition of higher-end brands.

One of the more important strategic moves of late among the top discounters was Wal-Mart's exclusive Bobbie Brooks woman's apparel deal.

Earlier this year Wal-Mart added the fashion women's wear brand, which represents a significant upscaling step. Carrying price points at the upper end of the chain's apparel price structure, Bobbie Brooks is, more or less, Wal-Mart's answer to K mart's Jaclyn Smith line, although the two can't be directly compared.

Wal-Mart, much more so than either K mart or Target, takes a more basic approach in women's wear. So the addition of Brooks, along with a trend—sparked in part by its Hypermart USA—toward getting more recognizable brand names in Wal-Mart stores, is a major step by the huge discounter.

K mart is increasing its commitment to the category, and to apparel in general, with its new prototype for its mid-size units. This features increased apparel space and places all apparel in the infield. Ladies' wear dominates the middle island, which is the most visible upon entering the stores.

Last year K mart also debuted two new ladies' wear private label programs, Weathered Blues, a denim-influenced sportswear collection, and The Body Company, a group of workout/active wear.

The nation's No. 1 discounter recently kicked off another private label collection, called Beverly Hills Blues, an even more upscale woman's sportswear line.

Target also continues to emphasize image brands and labels. For example, it had No Excuses (advertised by once-famous Donna Rice) last summer in store when it was hot.

Petites and plus sizes, and maternity to a lesser degree, are among the few growth areas in the sluggish ladies' wear category these days.

Ladies' Wear $22.3 Billion	
Full-Line Discounters	$16.1B
Catalogers	$0.3B
Specialty Discounters	$5.9B
Full-Line Discount Store Productivity	
Sales	$16.1B
Sales Per Store	$1,965,000
Dept. Size	11,000 Sq. Ft.
Sales Per Sq. Ft.	$177.00
Turns	4.2
Initial Markup	51.4%
Gross Margin	30.4%

Source: DSN research

Added Brand Names Boost Men's Wear 9%

Carrefour's hypermarket, like Wal-Mart's Hypermart USA, features fashion apparel, but it also emphasizes basics such as this row of Hanes athletic socks, sold in multiple packs at low price points. (DSN photo)

Nationwide DSN Report

Spurred by an overall stronger merchandising approach and healthier category business in general, men's and boys' wear sales at full-line discounters and off-pricers are expected to jump 9.3 percent this year to $12.9 billion. This rise compares to a 3.5 percent sales increase for the category last year.

Adding More Brand Names

Across the board, discounters continued to moderately trade-up to more fashionable and in many cases more recognizable brand names.

The addition of the Campus and Manhattan men's wear brands—which until recently were department store labels—at many discounters was part of the upscaling in product mix.

(Continued on page 30)

Men's/Boys' Wear $12.9 Billion	
Full-Line Discounters	$9.9B
Catalogers	NA
Specialty Discounters	$3.0B
Full-Line Discount Store Productivity	
Sales	$9.9B
Sales Per Store	$1,208,000
Dept. Size	7,800 Sq. Ft.
Sales Per Sq. Ft.	$154.87
Turns	4.1
Initial Markup	47.2%
Gross Margin	33.7%

NA—not available Source: DSN research

More Brand Names Add Pizzazz to Men's Wear

At the Piqua, Ohio prototype, K mart expanded the square footage for apparel and put it in the store's infield, attracting more customers to men's wear, among other apparel categories. (DSN photo)

(Continued from page 29)

Among the full-line discounters, sales will be up 8.8 percent to $9.9 billion, according to *DSN* research. Last year, sales increased by just a little over 2 percent.

The nation's off-pricers are seeing the men's and boys' wear category grow even faster, with sales expected to be up 11.1 percent this year to hit the $3 billion mark for the first time. Last year, off-pricer sales inched up by less than 3 percent.

There was a 7.7 percent increase among the full-liners in departmental sales per store from $1,122,000 to $1,208,000, and a 7.7 percent increase in sales per square foot.

Department store size remained the same—at an average 7,800 square feet per store—despite a call for more space by most merchandisers and buyers in the category.

A recent *DSN*/Jerard Less study, which surveyed men's and young men's wear buyers and executives at 27 major chains nationwide, found that an overwhelming majority felt an increase in square footage was necessary as well as overdue. They added that they could easily maximize any increase in floor space in their respective departments.

Turns are up to 4.1 from last year's 3.7, which reflects the healthy state of this category and the fact that more discounters are going on-line with more Quick Response strategies in men's wear, especially compared to women's wear.

Also, initial markup increased to 47.2 percent from last year's 44.5 percent, yet gross margins fell by 0.5 percent to 33.7 percent from 34.2 percent.

In addition to more brand names being made available to discounters, the opening of Wal-Mart's Hypermart USAs has greatly affected that discounter's apparel approach.

Trickling Down

The combined sophistication of presentation and top-of-the-line product carried at the two hypermarkets has been slowly trickling down to Wal-Mart stores.

For instance, at the Hypermart USA in Garland, Texas, long rows of cubes carrying just prewashed Levi 501s (at $18.98) was a presentation unlike that of any other general merchandise discounter in the country. Other men's wear labels the hypermarket carried included Guess, Zeppelin, Arrow's Brigade Unlimited, OP and Reebok T-shirts.

While relaxed, more fashionable young men's looks continue to influence both men's and boys' wear lines, most discounters don't break out a separate young men's department per se.

The biggest growth segment in men's wear are big and tall (but mostly big) sizes. K mart recently completed institution of a program that now has big and tall in all its stores. Also, acid-washed jeans turned out to be more of a success in men's wear than anticipated.

Target recently added a new private label program, under the label Greatland, which focuses on men's fashion outdoor wear.

Ames Department Stores has finetuned its men's wear area, promoting more fashion-oriented item buying. It also recently opened a "summer shop," which has been rolled out in certain units. It's a shop within the men's department that gathers together novelty T-shirts and tank tops, shorts, swimwear and other summer items. This reflects a more sophisticated "concept" merchandising approach for the chain than in the past.

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